JUNE, 1930

AMERICAN BANKERS Association JOURNAL

AN EARLY DEPOSITOR

Cover Story on Page V

Published in Two Sections—Section One

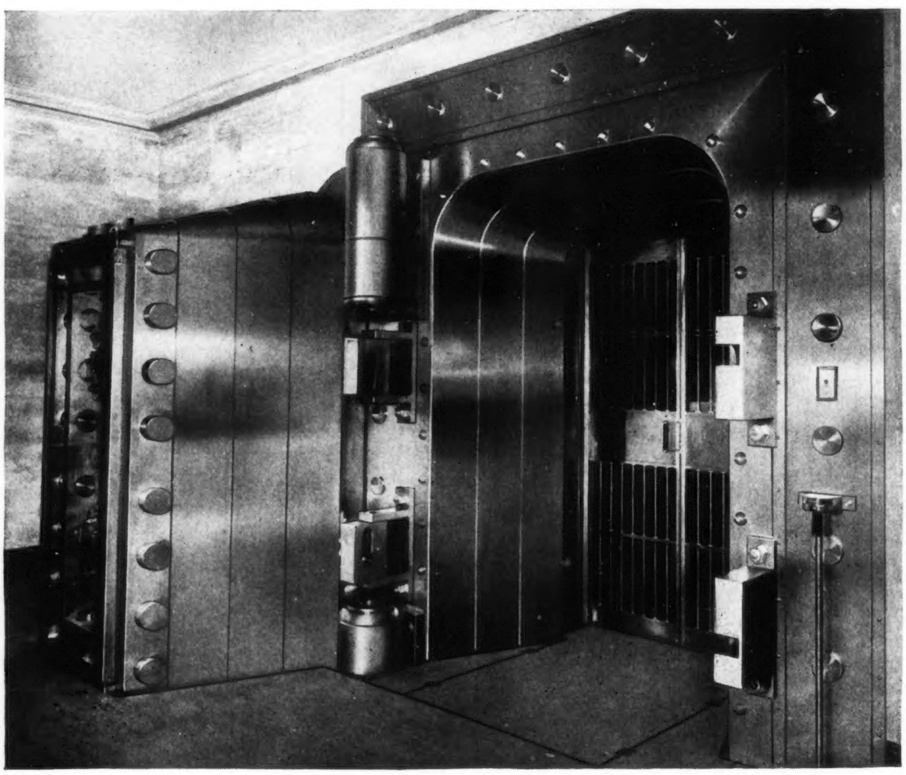
Pure Copper
frustrates torch attack

THE cutting torch is ineffective against vault doors safeguarded by heavy plates of pure copper. Due to an inherent property of the metal, the heat is conducted away from the point of attack almost as fast as it is generated. To penetrate a plate of pure copper seven to ten inches thick would require so much time and heavy equipment as to be impracticable.

The importance which bankers, architects and engineers attach to this type of protection, is shown by the fact that over four hundred banks now have their vault doors protected with heavy plates of copper.

Anaconda Copper is mined, smelted and refined by a single organization, assuring quality control at every stage of production. It is guaranteed 99.9 percent pure, which assures maximum heat conductivity. In the form of thick plates, Anaconda Copper provides the most modern measure of protection in bank vault construction.

For further information, address: Anaconda Copper Mining Co., 25 Broadway, New York.



Vault door in the Atlantic National Bank, Boston, Mass. Thomas M. James Co., Architect. This door contains a thick plate of Copper.

Many well known banks throughout New England have vault doors protected by Copper, among them the following:

First National Bank
Fields Cor. Branch
Boston

Ansonia National Bank
Ansonia, Conn.

New Haven Savings Bank

Mariners Savings Bank
New London, Conn.

Merchants National Bank
Norwich, Conn.

City National Bank
Belfast Me.

First National Bank
Lewiston, Me.

Concord National Bank
Concord, Mass.

Mechanics Savings Bank
Worcester, Mass.

Strafford National Bank
Dover, N. H.

Bellows Falls Trust Co.
Bellows Falls, Vt.

ANACONDA
from mine to consumer

ANACONDA COPPER

An Early Depositor

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

PRETTY much of everything, taking the world as a whole, has at one time or another, been used as a unit of exchange, and therefore, as money. The list ranges, according to size from seed grain (recall the expression, "as good as the wheat") up to oxen. One of the quaint traditions of our own country is that of an ambitious young man leading a cow up to the doors of a college. The cow was accepted in payment of his tuition.

Among the oddities in money "are plugs of black tea, stamped by the Russian Government, notched so that they could be broken into small change and circulating among the people of Thibet." There were also musket balls, and great slabs of copper, the latter once upon a time used in Sweden. There was, of course, wampum, and perhaps as romantic as any currency was the tobacco money, with which, among other things, a wife might be purchased in that time, when the land was young.

Among all these "moneys" nothing remained in use over a longer period, and probably none covered a greater geographical era than the use of beaver skins.

The "beaver skin money" had virtues peculiar to itself. There was no great variation in size and, to as great a degree as might reasonably be expected in what was an unfinished commodity, there was a certain uniformity of quality. The constancy of the market, the utility of the medium itself, its preservability, all contributed to give it the lead under primitive conditions in taking the place of money.

In the painting from which the current cover is made, the artist presents an adventurer from the fastnesses of the wild north country, coming out to a trading post to put a deposit of furs to his credit.

Not at all a part of the story, but, nevertheless, a something that will not down, is the thought that there is many a depositor in our real banks and many a city-tired teller behind the wicket who, looking upon this picture, may suspect that after all, perhaps backwoods life, even with such an awkward and smelly currency might have had compensations all its own.

This Month's Journal
and
Your Own Bank

JOSEPH STAGG LAWRENCE, in an article entitled "Savings for Which Banks Compete," tells us what it is possible for the American people, as a nation, to save. In other words he sets up the size and dimensions of the wealth for which banks may compete with other institutions.

So far there is nothing particularly astonishing in that; but what is astonishing in his article is the unmistakable movement of money saved, away from banks into other channels. We commend this important information to the attention of every banker who may be looking down the years to ascertain, if he can, where present trends and tendencies are likely to lead him.

CHARACTERISTICALLY conservative and by nature reluctant to deviate from the straight line of traditional banking ethics, savings institutions have been at a disadvantage in competing with certain types of building and loan associations. The steep, rising curve of building and loan deposits in the last few years contrasts sharply with relatively constant level of savings banks deposits. The JOURNAL is able to publish this month the details of a plan which has proved effective in checking some of the drift away from savings banks.

The plan consists chiefly of organizing the bank's personnel and in drawing the lines of contact with individual customers more tightly. A banker who read a pre-publication copy of this article said that by following the suggested program his own bank would be able to reckon a gain of three or four millions in deposits which would otherwise have been transferred to building and loan associations. Among other facts brought out in the article is that approximately nine out of ten depositors who contemplate shifting their savings to a building and loan association, have been influenced by propaganda which can rightly be called misleading.

IN the days when Yankee clippers were making the run from New England to the Orient in "the breath-taking" time of three months, the prosperity of our foreign trade depended more on the weather than on foreign loans or the movement of gold from one country to another. Stephen McCauley's article on "Gold Follows the Foreign Loan," draws a clear picture of the complicated factors influencing international movements of commodities today. He adopts the method of going back over the records of the past few years. He finds a cause for the present decline of our exports in the recent era of widespread speculation. He suggests a remedy for fluctuations in American capital exports—namely a policy whereunder the reserve system would buy and sell dollar exchange with the object of stabilizing it.

THE Taxation Committee of the American Bankers Association and Thomas B. Paton, General Counsel, have been cooperating with Federal and state officials at Washington in the task of formulating an amendment to Section 5219 of the United States Revised Statutes. Their aim has been to safeguard the protective features of Section 5219 and, at the same time, give states the power to tax banks adequately but not excessively.

As a result of their work a tentative agreement has been reached. Ever since the Macallen decision on May 27, 1929, when the United States Supreme Court declared that net income from tax-exempt securities could not be used in computing excise taxes, it has been

evident that Section 5219 would undergo some change. Now, with the form of an amendment generally agreed upon it can be said that bank taxation is about to enter a new phase in its long evolution. For a century and a quarter, beginning with an act passed by the Georgia legislature in 1805 to tax bank stocks and note circulation, and continuing to the present, this evolution has kept pace with changes in economic and political conditions in the United States. Judge Paton explains the importance of the amendment to bank earnings and brings the legislative record concerning bank taxation up to date.

WALTER HOWELL, who was president of the Federal Land Bank of Louisville from 1917 to 1922, writes on "The Security Underlying Land Bank Bonds." It has been said that the more one knows his subject, the fewer words he requires. Mr. Howell is a banker of thirty years' experience having begun his career as cashier of the village bank in Kenton, Tenn. During the five years he was president of the Louisville land bank he loaned more than $46,000,000 to more than 1500 farmers. He helped organize the Federal Farm Loan System and became president of the Louisville Joint Stock Land Bank and the Union Joint Stock Land Bank of Louisville. During his entire connection with the system he examined 35,000 applications for loans and lent approximately $60,000,000 to 17,000 farmers.

JOHN G. LONSDALE says it has been his observation that "you can lead a man to facts but you cannot make him think." In "Research Eliminates Guesswork from Management" he clarifies the meaning of an expression we hear more and more frequently these days: "the science of banking." He believes that banking, to be successful in this age of economic change and upheaval, must be carried on by strictly scientific methods.

FROM habit or conviction many persons continue to refer to the slowing down of business as though it were a child of last October's stock market. Holders of this view assume that the public lost money and had less to spend and business suffered. Donald B. Woodward has prepared a detailed examination of the last income tax totals and discovered that the nation's spending money was curtailed only about 1 per cent by the sudden wilting of billions in paper profits.

PROF. H. H. PRESTON and Allan R. Finlay present the second part of their national survey of investment affiliates. Last month, under the title "Investment Affiliates Thrive," they described the metamorphosis of bond departments into organizations handling all kinds of investment securities. This month they furnish concise information on the profits and prospects of this rapidly growing business and the factors of the current economic era which favor investment affiliates.

T. J. BARCLAY describes step by step a process for determining the cost of handling items such as checks of various types, deposit slips and loans. He believes that each bank must assemble its own cost data in the interest of accuracy. "There has been some demand for standard cost-finding forms and even some for standard cost figures. The former can possibly be developed; the latter, certainly, are impossible." Various forms used in disclosing per-item costs are reproduced with this article.

THE intelligent and courageous service rendered by the banks of the country at the time of the stock market collapse last year has been a frequent theme for praise but seldom for warning. Governor Roy A. Young of the Federal Reserve Board says that the banks were able to check the incipient panic without crumbling under the strain only because the banking structure happened to be in sound condition. He warned against the assumption the banks would be just as successful the next time.

"WHO Should Get Reserve Bank Earnings?", "Chains, Groups and Branches," "Productiveness as the Test for Rediscount," are the titles under which appear in this JOURNAL the main topics discussed in the latest report of the Economic Policy Commission. This report, based on the composite views of leading members of the banking profession with reference to three great economic problems, has aroused interest throughout the forty-eight states.

FARMERS, bankers, business men and professional men in the state of Oregon have participated in twenty-six economic conferences during the past six years for the purpose of developing the state's agricultural wealth. Other states have followed the same progressive policy, but the results in Oregon have been unusually successful. Paul V. Maris, director of extension, Oregon State Agricultural College, tells an interesting story of how "Oregon Bankers and Farmers Help Each Other."

AMERICAN BANKERS ASSOCIATION JOURNAL

Savings For Which Banks Can Compete

By JOSEPH STAGG LAWRENCE

Study of the National Income for An Eleven-Year Period Reveals Trend From Savings Accounts to Investments. Only 24 Per Cent of Total Free Savings Went to Banks in 1929 But in 1919 Banks Received 74 Per Cent. Stock Purchases Rose 954 Per Cent.

ALTHOUGH the function of safe-keeping was at one time confined largely to banks, competitors have appeared striving vigorously for the privilege of holding our prudential hostage to future want. Popular notions of thrift, under the pressure of "education," have been altered. As we read the prolific emanations of some of our eloquent and colorful schools of consumption we are almost tempted to conclude that rapid expenditure, not only of what we have earned and are earning but of what we may reasonably be expected to earn in the visible future, is the best road to the conservation of our substance. Whatever the faults and virtues of that highway may be there is no denying that skillful men have subjected it to some very attractive landscaping.

When Is Our Income Saved?

WHAT is thrift? When is our income "saved" and when is it not "saved"? These are difficult questions to answer. We may illustrate the difficulty by taking a very elementary illustration of thrift often employed in primary economics. A savage is pictured as living very literally from hand to mouth. Staving off the wolf keeps him pretty well occupied. By dint of extra effort he gets far enough ahead in his food supply to have some time for the construction of a canoe. That canoe is now his capital. With it his search for food is more effective than without it. In a civilized community every one has some "canoes," a home, furniture, clothing, perhaps a car. Each of these is the consequence of a past margin between production and consumption.

Are they the physical expressions of thrift? We may grant that for the house. It will do for many years and the land, if we own it, will for all mortal purposes be there forever. As we use the house it "wears away." The same is true of our furniture, the radio, the car and our clothing. Eventually they all revert to promiscuous dust. The only difference between the house and a suit of clothes is the length of the period of physical degeneration.

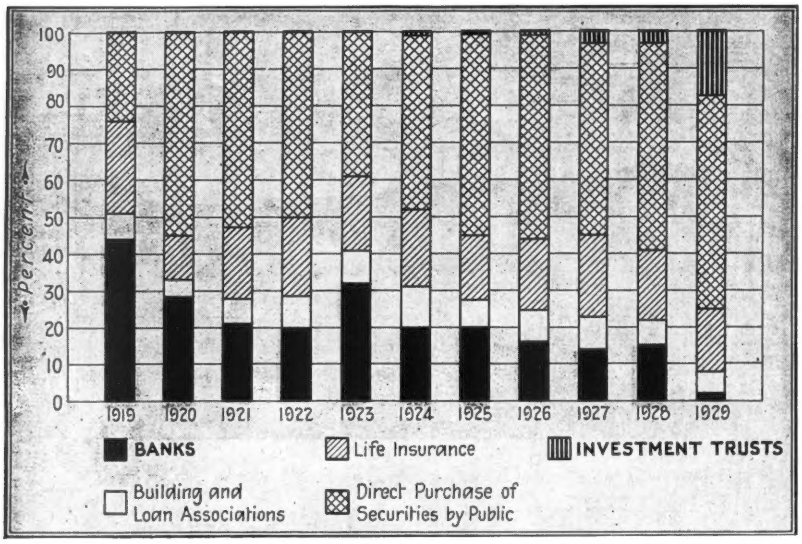
As we regard the subject a great many distinctions crowd in upon us, some tangible and real, others largely metaphysical. We call attention to them merely to note the difficulty of formulating an acceptable concept of savings. For our purposes here, in order to measure the part which our banks are playing in the modern thrift process, we shall establish three categories of savings.

Three Categories of Savings

THE first includes that portion of our current earnings which we set aside for more or less durable goods from which we can derive uses beyond the day of acquisition. The distinguishing characteristic of this type of saving is that the capital represented is subject to an attrition that may be regarded as a function of time. The family car is a good example. It endures beyond the day of purchase but is constantly being "consumed" even when it stands idle in the garage. It is never worth as much tomorrow as it is today. The saving represented by the car is subject to constant evaporation.

The second type of thrift is that in which the integrity of the capital substance is maintained. The capital is used but not consumed. A good illustration of this is the savings account. It yields a certain, uniform and periodic return to the owner. At the same time the essence of the yielding body remains unimpaired.

The third type of thrift is typified by common stock acquired directly through an agent or indirectly through an investment trust. There can, obviously, be no implication of impropriety in this type of investment. It differs from the



previous two in that the capital substance may vary throughout a great range multiplying or dividing itself during brief periods. In periods of lofty optimism this particular handmaiden of thrift appears vitalized with irresistible charm. She not only promises an income as great as that which her humble sister in the previous category offers but agrees in addition to minister so understandingly to the capital fund that it shall flourish and grow. Income, in other words, is reinforced by the prospect of appreciation.

What are the factual manifestations of these three types of thrift? How much do the American people set aside each year for capital which is consumed? How much of the stream of thrift is earmarked as capital whose substance is maintained? How much flows into those forms where it may grow prodigiously or shrink disastrously?

Our Non-Enduring Thrift

OUTSTANDING installment paper presents a clue to the magnitude of our non-enduring thrift. It represents about one quarter of the value of those goods which we buy each year which are consumed over a period of years following purchase. From this it appears that the American public "saved" about $8,000,000,000 in this field in 1919 and about $12,250,000,000 in 1929. The growth registered is thus slightly in excess of 50 per cent.

Our second form of thrift, the most conservative of the three, finds in savings banks, in building and loan associations and insurance companies its supporting allies. They conserve the earner's substance, pay him a periodic fee for its use and offer to return it on short notice at any time in the future. In 1919 these three agencies attracted $2,574,000,000 of savings, in 1929 $3,446,000,000, an increase of 33⅛ per cent.

Direct Security Investment Gains

OUR third form of thrift finds expression through direct or indirect purchase of securities. A part of this represents investment in senior securities and may be just as conservative as a savings account in a bank. No adequate measure of the thrift process which involves an undue aleatory element can be developed. We can however determine the extent of direct public participation in the investment process. Whereas the public purchased approximately $832,000,000 of securities in 1919 it acquired either directly or through the medium of the investment trust $7,939,000,000 in 1929, an increase of 954 per cent.

The actual increase must be somewhat less than this for the inclusion of investment trust issues involves a duplication. New York Shares, Inc., an investment trust, may sell additional shares, the proceeds of which are used for the purchase of a part of a new issue of Anaconda. To employ both the investment trust issues and those of Anaconda for the purpose of measuring that part of the stream of thrift which flows into the stock market results in some exaggeration. However even after making extravagant allowances for this we find that direct security investment has made gains in the favor of the public which may prove very disturbing to our time honored instruments of thrift.

So far we have measured the positive growth of each of our three methods of saving. No attempt has been made to determine the portion of our total savings which each form attracts or the extent to which they have displaced each other.

We are concerned chiefly in the struggle between the banks, building and loan associations and insurance companies on the one hand and the stock market on the other. It is possible that some earnings go directly into goods which are purchased on the installment plan instead of into stocks or savings accounts. The device of graduated purchase may deflect savings from the other termini. The fact may be noted without involving either a reflection or an approval of installment selling.

Two Main Questions

IN pressing our analysis of savings and the part played by our banks two questions remain:

(1) How many of the dollars earned by Americans each year are candidates for the thrift portfolio?

(2) What are the relative portions of total savings absorbed by the various institutions of thrift?

Two approaches are possible to the first of these questions. Willford I. King, David Friday and Walter R. Ingalls have attempted estimates of savings. They all agree that there are substantial variations in the sum which the American people set aside from year to year. The amount saved varies from one-seventh to one-fifth of the national income. As a general working fraction Prof. Mitchell accepts one-seventh of the income as the margin of saving.

About one half of this is accounted for through direct reinvestment of corporate earnings and the purchase of more or less durable goods which fall within our first category of thrift. It is the remaining half, or one-fourteenth of the national, income for which our banks, life insurance companies, building and loan associations, investment trusts and security markets compete.

For Which Banks May Compete

THE first three columns in the appended Table I indicate respectively the annual income of the people of the United States, their estimated total of savings and that theoretical portion for which our banks can compete. This estimate has the fault of a rigidity in the margin of savings which *a priori* and upon some observation does not agree with the facts. For example, the estimate for the year 1929 indicates $6,724,000,000 available for saving or investment. In that year the stock market alone floated more than $10,000,000,000 of new capital issues.

We have therefore taken a more empirical method of estimating available savings. Let us follow the procedure through for the past year. We may

start with new capital issues which amount to $10,258,000,000. Our next item is the difference between premiums paid to life insurance companies and operating expenses (Column VIII) amounting to $2,382,000,000. However approximately 37½ per cent of this is invested in securities and we must subtract that much from the insurance total to avoid duplication.

We then add the increase in the assets of building and loan associations. When we come to our banks we find that savings deposits increased $250,000,000 while the security portfolios declined $985,000,000. This means that the banks absorbed $250,000,000 in savings and placed almost $1,000,000,000 of securities on the market which were purchased by investors in addition to the more than $10,000,000,000 already distributed as new issues. Therefore both the decline in security holdings of banks as well as the increase in savings accounts must be added to that grand total of savings for which banks may compete.

Giving effect to all these computations we arrive at an empirical estimate of that portion of total savings for which banks may compete. For 1919 this amounts to $3,408,000,000 for 1929 to $13,807,000,000, an increase of 276 per cent. This increase in available savings has taken place in the face of an increase in national income of only 44 per cent.

Nor is this as unreasonable as a plain comparison of the two percentages might indicate. It is well known that any increase in income beyond an accustomed level results in a multiplication of the thrift margin. If Jones has an income of $10.000 and lives comfortably on $8,000 he can save $2,000. Should his income mount to $12,000 he could spend an additional thousand dollars every year and increase his margin of savings by 50 per cent. Something like this has taken place in America. If the process continues it will usher in an entirely new era of capital activity. Column IV in Table I shows the empirical estimate of savings eligible for banks for every year in the post war period. That answers our first question,

"How many of the dollars earned by Americans each year are candidates for the thrift portfolio?"

This total of free savings flows into two general channels, the conservative and the speculative. The conservative thrift channel includes banks, building and loan associations, life insurance companies. The speculative thrift channel includes direct purchase of securities, investment trusts.

The first category stresses safety of principle, regularity, uniformity and certainty of yield. In years when the speculative temper of the public is inflamed these "old fashioned" forms of saving suffer. We do not yet know whether we should term that hazard cyclical to compare it with the periodic risks which assail business or whether we should term it the hazard of obsolescence to signify a definite change in the savings habits of the American people.

An Unmistakable Trend

DURING recent years the second category, the speculative, has had its face lifted and has been the beneficiary of extremely favorable publicity. The pitfalls of common stock investment have been minimized and its attractions painted in a thousand alluring colors. It is probable that an earlier day underestimated the virtues of the junior security as a medium for investment even as it is possible that recent public favor has carried the common stock to a point beyond its intrinsic deserts.

A study of the statistical evidence (See Table II) reveals the increasing strength of the speculative appeal. It may be granted that 1929 was an abnormal year and that our conservative thrift institutions will make substantial recovery during the current year. Nevertheless the trend throughout this eleven year period is unmistakable. In 1919, 75.3 per cent of the total free savings flowed into our conservative channel while 24.7 per cent sought the stock market. In 1929 the investment trusts and the stock market together absorbed 75.1 per cent while the banks and their conservative allies on the other side were able to attract only 24.9 per cent, almost an exact reversal in eleven years.

TABLE II—PERCENTAGE DISTRIBUTION OF TOTAL SAVINGS FOR WHICH BANKS CAN COMPETE

Year	Banks	Building and Loan Associations	Life Insurance	Investment Trusts	Direct Purchase of Securities by Public
1919	44.1	6.6	24.6	...	24.7
1920	28.7	5.2	11.8	...	54.3
1921	21.3	6.4	19.4	...	52.9
1922	20.0	8.4	22.2	...	49.4
1923	32.1	9.0	19.7	...	39.2
1924	20.0	11.3	20.7	0.85	47.15
1925	20.0	7.7	17.4	0.64	54.26
1926	16.2	8.6	19.5	0.86	54.84
1927	14.6	8.9	21.9	3.3	51.3
1928	17.1	7.0	18.6	3.1	54.2
1929	1.8	5.9	17.2	17.6	57.5

Parenthetically we may take note of the part played by the investment trust. Its appeal has rested largely upon its theoretical ability to minimize the risks attaching to common stock ownership. Prudently managed trusts have fulfilled this expectation. With it they have paid the price which has always been necessary in the past for safety, to wit, reduced yield. The trusts today are therefore confronted with two necessary adjustments. The first is a revision of anticipated yield by the investor. The second is the elimination of the less strong organizations.

The rate of growth of the trusts clearly indicates the mushroom character of their recent development. In 1924 less than one per cent of our free savings were invested in trusts. By 1928 this had grown to 3.1 per cent. Last year it leaped to 17.6 per cent. Such abnormal growth in nature brings its penalties and investment trusts may find it necessary to move carefully for the next few years. That may afford the banks a chance to recover lost ground.

The changes which the banks have undergone in this eleven year period are far from comforting. In 1919 they absorbed 44.1 per cent of the nation's free savings. In 1929 this had falle nto 1.8 per cent. That it is rebounding substantially during the current year is certain. Nevertheless the situation is weighted with gravity for the banker. Is he destined to relinquish his role as the guardian of the community's safety funds? Is the mantle of the community investor about to pass from the shoulders of the banker to that of the investment trust manager and the investment counsellor?

TABLE I—STATISTICAL RECORD OF POST WAR AMERICAN THRIFT
(In Millions of Dollars)

	I	II	III	IV	V	VI	VII	VIII	IX	X	XI
Year	Income of the People of Continental U. S.	Estimated Total Savings	Theoretical Estimate of Part of Total Savings for Which Banks Can Compete	Empirical Estimate of Part of Total Savings for Which Banks Can Compete	Increase in Investments of all Reporting Banks in U. S.	Increase in Savings Deposits of All Reporting Banks	Increase in Assets of Building and Loan Ass'ns	Premiums Paid to Life Insurance Companies Less Operating Expenses	New Capital Issues	Investment Trust Issues	Installment Paper Outstanding
1919	65,949	9,421	4,710	3,408	2,439	1,506	228	840	3,588	....	2,042
1920	73,999	10,571	5,285	7,897	—1,000	2,274	408	931	3,635	....	2,405
1921	63,371	9,053	4,526	5,632	168	1,187	356	1,088	3,577	....	2,060
1922	65,925	9,418	4,709	5,389	1,195	1,078	452	1,198	4,304	....	2,150
1923	74,337	10,619	5,309	6,741	1,136	2,148	600	1,322	4,304	83	2,438
1924	77,135	11,015	5,507	7,261	1,517	1,462	823	1,514	5,593	62	2,500
1925	81,931	11,704	5,852	9,747	221	1,945	743	1,694	6,220	62	2,638
1926	85,548	12,207	6,103	9,604	297	1,562	825	1,873	6,344	83	2,779
1927	88,205	12,600	6,300	9,532	1,783	1,395	844	2,079	7,776	310	2,867
1928	89,419	12,774	6,387	11,868	461	2,042	837	2,230	8,050	372	2,905
1929	95,000	13,571	6,786	13,807	—985	250	814	2,382	10,258	2,425	3,087

A Way to Meet Unfair Building and Loan Competition

By JAMES E. CLARK

Organize Bank's Force to Watch Signs of Discontent. Go to Each Depositor and Make a Comparative Sketch. Two Methods to Deal with the Customer Who Says Nothing but Merely Draws Check. Helpful to Those Operating Ethically.

AT last a plan has been found for meeting unfair competition of building and loan associations—a plan that is working effectively in various sections of the United States.

It is based on the assumption that if a bank's depositors can be persuaded to close out their accounts through the use of misleading advertising, misleading radio broadcast, and through the false statements of house-to-house canvassers, the loss of this same business can be prevented if a bank will make known the truth to its customers.

Strange as it may seem, many bankers have apparently just begun to realize that in the case of a showdown they exert a greater influence over their depositors than do the advertisements of building and loan associations, their radio broadcasts, and especially the statements of house-to-house solicitors who are total strangers to the depositors.

Weakens Confidence

AT the same time, bankers with whom I have discussed this point admit that the high pressure methods being employed by certain building and loan associations tend to weaken public confidence in the integrity of our banks to give their depositors a square deal in the matter of interest. Bankers have only recently been irritated by another phase of this same question. They realize now that before a building and loan association can hope to be successful in raiding bank accounts, it must first make that customer dissatisfied with the treatment given him by his bank. Needless to say, our bankers resent such procedure because of the trickery so often employed.

But bankers are not going to lay themselves liable to criticism in the stand they take, for it is not a campaign against building and loan associations, but one limited to the protection of their own business. For example, no statements are made that question the financial stability of any building and loan association. If perchance a limited number of people should get the impression that certain associations are unethical, it will be because those associations have in the past been dishonest in their methods of getting business.

THE building and loan association is a useful institution. There is a place for it in community service, as there is for the bank. But there has been a lot of complaint over the fact that some building and loan associations were taking savings accounts away from banks by methods unethical. How to meet this competition without injuring the fair-dealing associations is a question which many bankers have tried to answer satisfactorily.

The accompanying article tells of a plan by which inroads on savings accounts may be stopped.

Let us see how this might occur. Let us assume that a representative of a certain association in proselyting bank customers makes false and misleading statements and also promises various concessions which the law does not permit to be carried out, and later this customer on interviewing his banker finds that the representations made to him are false and that trickery and high pressure methods were used in an effort to get his business. Under such circumstances it is only natural for him thereafter to regard that building and loan association as being irresponsible. Of course, it must be admitted that building and loan associations which use deceptive methods might well expect an unfavorable reaction.

W. Espey Albig, in charge of the Savings Bank Division of the American Bankers Association, makes a suggestion which, I believe, merits the consideration of every banker affected by unfair competition. He recommends that the bankers associations in each of the states where bank customers are being misled appoint a Committee on Building and Loan Research. One of the duties of this committtee will be to make a study of the building and loan situation in the state especially with reference to the laws, expansion, and the methods used in getting new business; that these data be placed at the disposal of those banks desirous of protecting their own businesses.

He further recommends that the committee study the character of advertising used by associations that are known to disregard ethical practices. As fast as questionable advertising appears in print let the member of the committee pass it on to the building and loan commissioner for such attention as he may see fit to give it. Of course, if he fails to act on it, it then remains for the banks to do so.

Pacific Coast Plan

FOLLOWING in the footsteps of bankers in other sections of the United States, certain banks on the Pacific Coast are now engaged in correcting the misleading statements of certain building and loan associations, not by going on the air, or by newspaper advertising, or direct-by-mail, but by interviewing their own customers who have been made dissatisfied as a result of listening to the misleading statements.

The plan is a simple one, and building and loan associations that have been conducting their business getting activities along proper lines are not affected in any way.

A bank's staff is divided into three

groups. Group One consists of a limited number of officers known as contact officers or interviewers. Their principal duty is to conduct personal interviews with bank customers who have been made dissatisfied with their banking relations as the result of false information. These contact officers take whatever time as is necessary in order to explain the difference between a savings account in a bank and an investment in a building and loan association.

If it becomes necessary they do more. Where they find that the depositor has been influenced to make a transfer by the use of questionable methods, or false statements or promised concessions that cannot be fulfilled they will supply their customer with the facts and let him draw his own conclusions. For example, where a customer of the bank is promised among other concessions that he can draw his investment from a building and loan association on demand, the officer will point out that it is against the law for building and loan associations to have any investments or shares that are payable on demand. Where a customer is assured that there is no stockholder's liability and the law provides that there is, the contact officer will quote the law. Where it is apparent that the depositor is contemplating a transfer for no other reason than because facts which he ought to know have intentionally been kept from him he will be enlightened. Perhaps the outstanding feature about the Pacific Coast Plan as it is called, is that it gives to bank depositors an opportunity to get all of the facts before they finally decide whether they will transfer their funds to a building and loan association or leave them in the bank.

If as tests have shown, nine depositors out of every ten who apply at their respective banks to transfer their deposits have been influenced to make the move by misleading advertising, misleading radio broadcast, and misleading statements of solicitors, it stands to reason that nine out of ten who call to make a transfer when given the facts, will not only leave the money in the bank but thank their banker for helping them to avoid investing their funds with an institution that is using questionable means to get business.

Group Two under the Pacific Coast plan consists of all persons on a bank's staff who contact the public except the contact officers or interviewers. This applies regardless of what department a person may be in, or where he is stationed, as long as he contacts the public.

Sketch It Out for Him

Watch for Dissatisfaction

HIS principal duty is to keep ever alert for any evidence that a customer is dissatisfied with his banking connection as a result of misinformation given him by a building and loan association representative. Without waiting further developments a member of Group Two makes it the first order of business to introduce the customer to a contact officer for an interview. Having done so, his duties to that particular customer ceases.

Group Three consists of those persons in a bank as do not contact the public. For the present they are not being used in the plan.

Obviously this plan is certain to prevent many withdrawals, especially those that were being influenced by questionable methods, but how about those customers who draw the checks without calling at the bank in person? Savings accounts are not subject to check, therefore a bank is within its rights to return all checks, writing the customer to call. This is work which a contact officer might handle, and when the customer calls give him an opportunity to discuss the proposed investment.

Or, instead of waiting for the customer to call, a bank might do as one small country bank is doing now, send an officer to call on the depositor whose check is returned. That little bank is retaining three out of every four customers on whom it calls.

In order to enable the customer who is interviewed by a contact officer to visualize the comparison between money in a bank and money invested in a building and loan association, the contact officer sketches out the comparison on a blank sheet of paper with the depositor looking on. This method has been found to be the most effective of any used thus far. Curious to know what the officer is about to sketch on the sheet of paper, the depositor's attention is immediately fixed on the paper. As the comparative sketch is developed the customer begins to visualize the difference between the two investments, to the point where he sees every point made by the officer.

As for depositors who have found it necessary to increase their own income, or the income on trust funds above the savings bank rate, a compromise with the depositor is made. It is suggested to him that one-half of the amount he expected to transfer be invested in 6 per cent first mortgage bonds,

(*Continued on page* 1195)

Gold Follows the Foreign Loan

By STEPHEN McCAULEY

The Big Three Variants in America's Multiplex Transactions With Other Nations. The Outflow of American Capital Could be Made Less Eccentric if the Federal Reserve Would Acquire Several Hundred Million Dollars in Foreign Exchange Holdings.

WHAT follows what in foreign trade is a perennial topic. Trade follows the loan, we are quite sure. But the converse is true, too: the loan follows trade. Trade follows the gold shipment, and the gold shipment follows the trade balance—or so we have been told. The loan follows gold, and gold follows the loan.

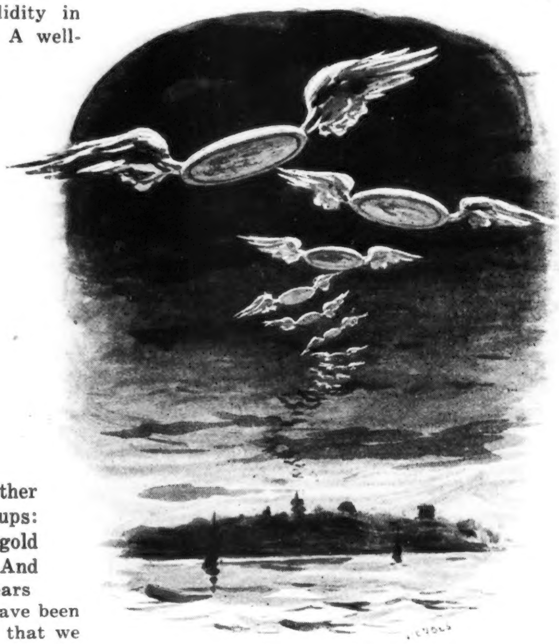
There is probably some validity in all these alleged relationships. A well-constructed balance of payments measures several scores of groups of international transactions, all of which are interrelated by the Law of Detractions and Promotions. Obviously, our favorable trade balance "is financed by" our tourist expenditures and our immigrant remittances as well as by our loans to foreigners. The relationships seem to be myriad.

The "Big Three Variants"

SOME simplification is possible, however. America's multiplex transactions with other nations fall easily into four groups: merchandise, foreign loans, gold shipments, and miscellaneous. And it has so happened in recent years the miscellaneous transactions have been so relatively stable, as a group, that we can regard merchandise, loans and gold as the "big three variants."

American balances of payments, as compiled by the Department of Commerce, show that despite fluctuations in the numerous individual items of the miscellaneous group, the average annual change in the net figures for the group during years 1923 to 1929 inclusive was only $92,000,000. The average annual changes in the net export of capital, in the trade balance, and in the gold movement were, respectively, $403,000,000, $344,000,000 and $197,000,000. The slight fluctuations in the miscellaneous group, therefore, amounted to less than one-tenth of the total gyrations of the four groups.

Since the miscellaneous transactions, as a group, virtually stood pat and "followed" nothing, we have a fine opportunity to find out what the variables followed. The prime purpose of the present analysis is to show that, while both imports and exports of merchandise, as well as the trade balance, have apparently followed the loan (meaning the net export of capital), gold has followed the



loan more faithfully in some respects than any of them. A second purpose is to draw certain conclusions from this somewhat surprising result.

How Trade Follows the Loan

THE table at top of page 1111 shows that trade does tend somewhat to follow the loan—whether "trade" means merchandise exports, merchandise imports, or the trade balance. Absolute figures are shown in two of the columns, but the net-change figures are far more important, in a survey of this sort.

The table shows that America's aggregate excess of merchandise exports over merchandise imports during the seven years was $4,976,000,000 and that of this sum only $3,288,000,000, or about two-thirds, was financed by our foreign lending. The other third was financed by (1) miscellaneous items—including net tourist expenditures and immigrant remittances, as increased or reduced by many other items—and by (2) about $175,000,000 of net gold imports (counting earmarkings).

No one should pass this table without noting that America's net export of capital fluctuated by more than $500,000,000 in three of the seven years. Of this more anon.

Adjusted by Trade Balance

IT is the net changes, year by year, in the net export of capital and in the merchandise figures that disclose the tendency of "trade to follow the loan." In six of the seven years a reduction in our net foreign lending was accompanied by a reduction in our trade balance, or an expansion of the former was accompanied by an expansion of the latter. The exception was 1925, when our trade balance decreased despite an increase in our foreign lending; most of the difference was settled by the very important reversal in the gold movement in that year.

As a maximum, how much of the total annual fluctuations of $2,819,000,000 in our net credits to foreigners could have been adjusted by annual changes in our trade balance? The answer is had from a year-by-year comparison of Columns III and V of the table: The maximum "followings" for 1923 and 1924 are $344,000,000 and $550,000,000 while those for 1926 to 1929 are respectively $305,000,000, $303,000,000, $239,000,000 and $196,000,000. That would make a maximum of $1,937,000,000—from which, however, $402,000,000 should be deducted for 1925, when the trade balance moved in "the wrong direction." This would reduce the maximum to $1,535,000,000. Therefore, 54.5 per cent (1,535 divided by 2,819) of the annual net changes in

ANNUAL FLUCTUATIONS IN AMERICA'S CAPITAL EXPORTS AND FOREIGN TRADE
(In millions of dollars)

Year	Net Export (–) of Long-term and Short-term Capital[1]	Year's Change in Capital Movement	Trade Balance	Year's Change in Trade Balance	Year's Change in Merchandise Exports	Year's Change in Merchandise Imports[2]
I	II	III	IV	V	VI	VII
1923	+ 33	+411	+375	–344	+335	–679
1924	–517	–550	+981	+606	+424	+182
1925	–621	–104	+683	–298	+319	–617
1926	–181	+440	+378	–305	–101	–204
1927	–695	–514	+681	+303	+ 56	+246
1928	–934	–239	+1,037	+356	+263	+ 94
1929	–373	+561	+841	–196	+113	–309
Total (T) or average (A)	(T) –3,288 (A) – 470	(T) 2,819 (gross) (A) 403 "	(T) 4,976 (A) 711	(T) 2,408 (gross) (A) 344 "	(T) 1,611 (gross) (A) 230 "	(T) 2,331 (gross) (A) 333 "

[1]Source: "The Balance of International Payments of the United States in 1929," by Ray Hall, U. S. Department of Commerce.
[2]A minus in this column denotes, of course, an increase of merchandise imports.

our capital exports may have been adjusted by our trade balance.

Another crude measurement is suggested: As a maximum, how much of the total annual fluctuations of $2,408,000,000 of the trade balance could have been caused by fluctuations in capital exports? The maximum percentage, here, is 63.7 per cent (1,535 divided by 2,408). The trade balance did follow the loan.

The method of these measurements, being novel, needs defence. It is based on the simple fact that a nation's balance of payments is always in equilibrium; each credit is matched by a debit. A change in one group of a nation's foreign transactions inevitably creates changes in its other foreign transactions. Any scheme of measuring annual deviations from averages, or from trends, of the various groups of transactions would be substituting fiction for fact.

Loan Fluctuations Did Not Upset Export Business

A YEAR-BY-YEAR comparison of the figures in columns III and VI of the table, similar to the one just made on behalf of the trade balance, indicates that merchandise exports and merchandise imports are less related to foreign loans than the trade balance is —at least in these seven years. That merchandise exports do not fluctuate very closely with foreign loans smacks of economic heresy. But let the figures speak.

Of the $1,611,000,000 of annual fluctuations in merchandise exports, only $924,000,000 as a "gross maximum", could have been caused by fluctuations in capital exports. But the "disagreements" in 1923 and 1929—when merchandise exports moved in "the wrong direction"—totaled $1,420,000,000! Those who find it pleasant to hold the ancient conviction in this matter can still point to the five years when there was an agreement; yet in only two of those years (1924 and 1928) was the agreement very striking. It cannot be said that the wild fluctuations in our foreign lending greatly upset our export business—in those seven years.

Merchandise Imports More Related to Loans

EVERYONE who has had much economics knows that an increase in foreign lending is about as likely to be associated with reduced merchandise imports as with increased merchandise exports. The reasons are clear enough. When foreigners sell us less goods than usual, they are likely to draw down their dollar balances; to increase their dollar acceptances, and to expand our net export of capital in several other ways. Thus the loan follows imports. Furthermore, increased foreign lending reduces purchasing power at home, whether for domestic or for foreign goods; and the rise of foreign exchange with increased foreign lending tends, in some slight degree, to restrict our imports. Anyhow, in six of the last seven years, imports have "followed" the loan.

Of the $2,331,000,000 of annual fluctuations in merchandise imports shown in the table, $1,446,000,000 as a "gross maximum" could have been caused by fluctuations in capital exports. Deducting $721,000,000 for 1925—when merchandise imports moved in "the wrong direction"—the "gross maximum" is reduced to $725,000,000. That one off-year reduced by half the mechanical relationship, so striking for the other six years of the period. For the period as a whole, 25.7 per cent of the annual fluctuations in our net foreign lending could have been adjusted by merchandise imports. On the other hand, 31.1 per cent of the fluctuations in merchandise imports may have been associated with fluctuations in capital exports.

Gold Does Follow the Loan

GOLD is the most mobile commodity. With this thought in mind, it should not be surprising to find that gold movements are much more subservient to the wild fluctuations in our capital movements than are trade movements. The second table proves this to be the case.

In all seven years herein surveyed, an increase in capital exports was accompanied by an increase in net gold exports or by a reduction of net gold imports, or (conversely) a decrease in capital exports was accompanied by a decrease in net gold exports or by an increase in net gold imports. There is no "net maximum" to be computed.

Of the $2,819,000,000 of annual fluctuations in capital exports, $1,154,000,000, or 41 per cent, could have been adjusted by changes in the gold movement. On the other hand, of the $1,368,000,000 of annual fluctuations in gold movement, no less than 84 per cent could have been caused by changes in the net export of capital.

A quasi-exception appears in 1925, when the net change in gold movements was greater than the net change in capital movements. In that year it would be more correct to say that the loan "followed" gold—by no means an absurd statement, considering that some of the $131,000,000 of gold received from the United Kingdom during the previous year may have been shipped for deposit here, rather than for the settlement of international balances.

Do Foreign Loans "Follow" the Import of Gold?

NO one denies that a large part of our capital exports since 1914 were made possible by our huge net gold imports up to the end of 1923. Inflowing

ANNUAL FLUCTUATIONS IN AMERICA'S CAPITAL EXPORTS AND ITS GOLD MOVEMENTS
(In millions of dollars)

Year	Net Export (–) of Long-term and Short-term Capital	Year's Changes in Capital Movement	Net Export (+) or Import (–) of Gold Earmarkings Counting	Year's Change in Gold Movement
I	II	III	IV	V
1923	+ 33	+411	–295	– 61
1924	–517	–550	–216	+ 79
1925	–621	–104	+102	+318
1926	–181	+440	– 72	–174
1927	–695	–514	+154	+226
1928	–934	–239	+272	+118
1929	–373	+561	–120	–392
Total (T) or average (A)	(T) –3,288 (A) –470	(T) 2,819 (gross) (A) 403 "	(T) –175 (A) – 25	(T) 1,368 (gross) (A) 195 "

gold became the basis of credit, both foreign and domestic. Whatever basis there is to Europe's criticism that we have "sterilized" the gold it has sent us applies mainly to the $906,000,000 of America's net gold imports in 1921 and 1922; for (1) in 1919 and 1920, the Federal reserve ratio was barely above the conventional 40 per cent, and (2) our net gold movement for the six years 1924 to 1929 was an inflow in the wholly negligible sum of $13,000,000. Besides, in each of the six years herein surveyed the "free gold" of the Federal Reserve System fell with a net increase in foreign lending and rose with a net diminution in foreign lending; this is only saying, however, that from America's viewpoint its international gold traffic after 1921 consisted mostly of "free gold." By and large, Europe's indictment that our reserve system has sterilized much of the world's gold is, of course, a just one.

In conclusion, one would infer that—under the peculiar regime of reserve banking in this country during the period under review—gold exports followed the foreign loan; not the reverse. In other words, there is great danger of confusing cause with effect in interpreting the strong relationship between our gyrating capital exports and gold movements.

Gold Movements Were Unrelated to Trade Balance

DOES gold follow also the trade balance? A "diagnosis of exclusion" is in order. Gold is supposed to be used to settle the international balance—meaning in the popular mind the trade balance. What the trade balance has to do with gold movements will now be examined.

On the face of it, gold did not closely follow the trade balance expressed in absolute amounts; for all our trade balances were "favorable," and in three of the seven years the net flow of gold was outward. Only the annual changes in the trade balance would be worth examining.

Columns V of Both Tables Compared

A GLANCE at the two columns shows that our diagnosis chances to be one, not of exclusion, but of total obliteration! In only one year (1925) was a reduction in our trade balance accompanied by an outflow of gold. In the other six years, gold went blithely joyriding in "the wrong direction." In 1924, 1927 and 1928 we put foreigners into greater debt to us on account of the trade balance; yet in all those years foreigners shipped us less gold (1924) or we shipped them more gold (1927 and 1928) than in the years immediately preceding. Conversely, in 1923, 1926 and 1929, foreigners owed us less on account of the trade balance than in the years immediately preceding; yet we received more gold from them in all three years.

So pointed a challenge to customary ideas suggests the need of more facts. A few minutes' check-up of the decade closed with the fiscal year 1914 shows that gold followed the trade balance in seven of the ten years; that (as a "net maximum") 13.4 per cent of the annual fluctuations in the trade balance may have been settled in gold; and that of the annual fluctuations in the gold movement 39.2 per cent could have been caused by changes in the trade balance. In those ten years, gold did follow the trade balance to some extent; but they were years when the net inflow or net outflow of capital was much smaller than in recent years—and perhaps relatively more stable. At the same time, however, fluctuations in the trade balance then averaged only $160,000,000 a year—against $344,000,000 in the last seven years.

The "International Financial Nuisance"

OUR net export of capital in 1929 was only about $373,000,000; whereas in 1928 it had been about $934,000,000. One of the two great lending nations thus curtailed its foreign credits by about $561,000,000 in a single year. This may have cut off by 40 per cent the foreign credits available to the borrowing nations, as distinguished from the capital-exporting nations. The resultant blight to international purchasing power is still being felt. It is almost too sardonic to quote the noted German economist, Kurt Singer: "To appraise the future economic development of the world, we need first of all to measure the capital exports of the United States."

The panic of 1907, under our then archaic banking system, gained for our nation the epithet of "the international financial nuisance." Again last year, under the Federal Reserve System, the role we played made that epithet far from libellous. Indeed, many friends of the Federal Reserve System seem to have been only blearily aware that the Wall Street slump had created any but a domestic credit problem.

The restriction of America's foreign credits in 1929, after the lavish lending of 1928, is clearly responsible for part of the sharp decline in our exports in recent months, for some of the world decline in commodity prices, and for much of the fiscal or foreign-exchange difficulties of a dozen different nations. Our own merchandise exports declined by $459,000,000, or by nearly one-sixth, during the six months ended with March, 1930, when compared with the like period a year earlier. It was directly responsible for much of our net gold inflow of $307,000,000 during the fifteen months ended with last October, a development which menaced the gold standard in several countries and which undoubtedly reduced prices and purchasing power in nearly all of the outside world. All that imported gold, and some besides, was promptly "sterilized" by our Federal reserve banks, which simply added it to their gold hoard, without increasing their holdings of bills and securities. Between August 1, 1928, when the gold inflow started, and October 2, 1929, approximately when it ended, the gold holdings of the Federal reserve banks increased by $383,000,000; but Federal reserve credit outstanding (holdings of bills and securities) actually declined by $50,000,000 during the period. Thus, an additional 3 per cent of the world's gold stock was effectively removed from world circulation. World prices *had* to sag—and the value of our exports sagged with them.

The cause of all this mischief was, of course, the wave of security speculation which swept this country in 1928 and 1929, driving up money rates all over the world and thereby discouraging foreign bond issues in the world's leading money markets. For the first time, the outside world was confronted with the consequences of having its principal money market subsidiary to the world's most turbulent security market.

The Remedy

THE outflow of American capital could be stabilized, or be made less eccentric, by a very simple method—from which, by the way, other enormous advantages would accrue. The reserve banks should immediately set about the acquiring of several hundred millions of foreign-exchange holdings — increasing them when dollar exchange is at a high premium and disposing of them when dollar exchange is at a low discount.

From the viewpoint of this article, however, the prime purpose would be the stabilization of America's net exports of capital. The other advantages, briefly, are:

1. It would make productive several hundred millions of our wholly idle gold hoard.
2. It would reduce foreign ill will against us, provoked by our "sterilization" of so much of the world's gold stock.
3. At the outset, it would stimulate American exports of merchandise to some extent, if exports do follow the loan.
4. By making gold movements less violent, it would reduce or obviate the "neutralization of gold movements" by our reserve banks (the dumping of Government obligations in great blocks when gold is imported and the bidding up of Government obligations when gold is exported). This is a wasteful process, particularly because of brokers' commissions; an inadequate process, when gold imports exceed Federal reserve holdings of Government obligations; and an embarrassing process if a gold inflow occurs when it is desirable to curtail Federal reserve credit outstanding, as in late 1927. Foreign exchange would be bought only at discounts and sold only at premiums.
5. It would stabilize dollar exchange, our international currency, thereby popularizing dollar acceptances.

(Continued on page 1172)

The Association Work for Better Banking

Executive Council at Its Spring Meeting Reviews Work of Divisions and Various Groups. How to Make Effective, of Facts Collected by the Organization Keynote of Program. Use Unusual Success of Several Regional Conferences on Management.

PRESIDENT JOHN G. LONSDALE, of St. Louis, in his report to the Spring Meeting of the Executive Council of the American Bankers Association at Old Point Comfort, Va., stated:

"It has been well said that the American Bankers Association, exclusive of the Federal Reserve System, has been the greatest single, nation-wide source of stability and improved conditions of banking in the United States. My knowledge of the splendid work being contributed by my fellow officers, the Executive Council, the commissions and committees, the executive manager and staff, enables me to say that the association will serve even more efficiently in the future the functions for which it has become famed in the past."

A Mine of Useful Facts

THIS meeting of the council was notable for the unusual volume and variety of useful facts on banking and general business conditions embodied in reports. These reports reflected months of intensive investigation and made available to bankers throughout the country information designed to increase banking profits and promote the general economic welfare of the nation.

President Lonsdale described the Association as a powerful laboratory working constantly in the interest of the individual banker. The findings of investigations carried out under the direction of the Association, he declared, were available to the 20,000 members. He summarized briefly the achievements of various fact-finding commissions and said that all bankers benefited by the existence of accurate statistical information.

Executive manager F. N. Shepherd said that the practice of holding regional meetings had proved to be extremely successful. The idea was first tried out about a dozen years ago by the Trust Company Division and developed into such important conferences as those on management recently held in Portland, Philadelphia and Atlanta. He reported that the Savings Bank Division also had adopted the regional plan with success. The growth of the Association in service and influence, he declared, was due not only to the officers and staff but to the "fine cooperation of the local bankers in the various cities where conferences have been held and the equally fine assistance and cooperation of the various state bankers associations, their presidents and their secretaries in particular."

Thomas B. Paton, General Counsel, reported on the outlook for Federal and state legislation. He emphasized the importance of the Brand Bill which would make it a Federal crime to circulate false reports maliciously and with intent to deceive concerning the financial standing of any national or member bank. He described the work of the general counsel's office with reference to the bill sponsored by the Post Office Department providing for an increase in the facilities of the postal savings banks.

The progress made this year by the American Institute of Banking was covered in a report submitted by the President of the Institute, W. J. Evans, of Dallas, Texas. It was pointed out that, despite several unfavorable factors, the membership had climbed from around 65,000 to 70,000 and class enrollments had risen from 43,000 to 45,000. He described the increasing use made of radio and believed that broadcasting offered unlimited possibilities for expansion in the field of public education. He said that one of the most important accomplishments of the Institute had been the revision and modernization of texts so as to meet more definitely the needs of both city and country bankers.

Competition for Savings

AUSTIN McLANAHAN, of Baltimore, President of the Savings Bank Division, referred to current efforts in Washington to obtain legislation increasing from $2,500 to $5,000 the amount allowed any depositor in a postal savings bank.

"Arguments were made that the money deposited in postal savings does not remain in the community," he said, "but must be expended for bonds to secure the postal savings by banks; that the business is not profitable to the Government; that by reason of the decrease in immigration and the number of foreign nationals depositing in postal savings there is no need for the increased limit; that postal savings facilities do not cover the country generally as was contemplated when the legislation was originally enacted; but that postal savings facilities are offered now generally in urban communities where banking facilities are adequate; that since under the law it is not possible to attach or garnishee postal savings deposits, the increase to $5,000 would enable persons so disposed to amass considerable sums at the expense of their creditors."

Mr. McLanahan's report dwelt at some length on the increased competition faced by savings banks. He said:

"Banks are not averse to their deposits in savings going into sound securities, for purposeful saving is the idea in modern bank advertising. There seems to be a feeling among many bankers that the newer type of building and loan association is not only a great competitor of banks for savings business but frequently is an unfair competitor in that in many cases it operates practically exempt from taxation and the necessity of carrying cash reserves.

"The Savings Bank Division has examined rather thoroughly into the activities of these associations from time to time. Essentially the problem is a local one for various states. As a division we can make the most progress in meeting the competition set up by offering all the services which are necessary for the customers of the bank."

Trend to Advertising

HE said that the division was continuing a survey on ways of obtaining greater liquidity for real estate mortgages. The recession in savings, he believed, had caused bankers to give more and more attention to savings. "Considerable pressure," he said, "on the part of bankers has been brought to bear on the division to inaugurate an advertising department, so that the most modern and satisfactory appeal may be available for small country banks as well as for the larger ones."

Dan V. Stephens, of Fremont, Neb., President of the State Bank Division, said that state laws for the supervision of banks had undergone many radical changes during the past five years, largely because of an educational campaign conducted by the division among legislators and state governors. A great deal of time and attention has been devoted to the elimination of the banking departments from the influence of politics, said Mr. Stephens. A section of the report defining the purposes of a regional-clearinghouse association reads in part:

"It is to increase the knowledge of better banking practices among members. It is not a clearinghouse for checks but for ideas and a program constructive in character is mapped out for the year's work and carried out as religiously as the work of the American Institute is carried out, excepting, of course, that the latter's program is more extended and more theoretical. The problem confronting the regional clearinghouse association is one of more revenue, reduced losses, cutting out waste and better bank management in general."

Mr. Stephens said that special efforts had been made to cooperate with other divisions of the association in furthering the cause of better banking laws nationally.

On a Hunt for Facts

THE report of the State Secretaries Section was made by the President of the Section, M. A. Graettinger, of Chicago. He told about the appointment of eight committees to investigate state support of the American Institute of Banking, county organizations, credit bureaus and clearinghouse associations, improved banking practices, insurance protection, public education and taxation.

These committees, he announced, would report their findings to the annual meeting of the section in October. Meanwhile, he was able to supply summaries of progress to date. He said that the committee on credit bureaus and clearinghouse associations had information showing that there were now 180 credit bureaus in twenty-nine states, compared with 163 in twenty-eight states seven months ago.

Growth of Trust Business

JOHN C. MECHEM, of Chicago, President of the Trust Company Division, reported that both the number of institutions engaged in trust service and the number of trusts reported for 1929 were almost double the totals for two years ago. He said that the value of life insurance policies on deposit with banks and trust companies in the United States had reached $2,500,000,000. With reference to membership in the division and the special problems involved, he said:

"Our total members a year ago both active and associated were 3864 and today are 3968, or an increase of 104, but that does not tell the story. During the year, as a result of consolidations and as a result of revision of our list of active members, and striking off of our list members who had originally gone on our roll merely because they had the words 'trust company' in their name but were not in fact doing a trust business, we have decreased our active members by 414. As against that there has come into our membership 518 associate members of which 511 are national banks which during the past year have obtained permission to and are in fact exercising trust functions.

"So that there has been cast upon this division during the year the task of educating and assisting these 511 new trust departments that have come into our field. With that, as I have previously said, has come a great increase in the business of our existing members."

Factors Affecting Trade

FRED KENT, of New York, Chairman of the Commerce and Marine Commission, read a report on political and economic factors affecting domestic and international trade. It covered a wide range of subjects, including causes of the stock market decline, the railroad situation, public versus private operation of industry, the London naval conference, the Young plan, the Bank for International Settlements and the International Chamber of Commerce.

Mr. Kent said that three principal causes which had seriously affected trade and commerce in the United States were over-production, uncertainty resulting from delay in adopting tariff legislation and the issuance of securities beyond the power of the public to absorb them. He recalled that the Commerce and Marine Commission, at a meeting held in April, 1929, had recommended that a study be made of the New York money market by the Federal Reserve System, the New York bankers and the Stock Exchange. He declared that this action was never consummated and expressed the belief that an opportunity had been lost to perform a public service.

"The ability of an individual to buy securities within a given year," he said, "is represented by the amount of his income from all sources less what he must spend to meet his requirements and what he desires to spend and does spend for his pleasure and recreation, together with such amount as he may be able to borrow. What is true with one individual must be true with every individual and therefore the combined net income of the people, plus their ability to borrow, must measure their ability to absorb new securities."

The report of Hal Y. Lemon, of Kansas City, Mo., Chairman of the Bank Management Commission, formerly called the Commission on Banking Practices and Clearinghouse Functions, is published in another part of this JOURNAL.

Location of A. B. A. Headquarters

MOST of the Council's second session, held on Tuesday evening, May 6, was given over to debating a resolution submitted by Dan V. Stephens, which provided for the removal of the headquarters of the Assciation from New York to Washington, D. C. Mr. Stephens retraced the history of efforts to move the headquarters, beginning in September, 1918. At the close of his remarks J. H. Puelicher offered an amendment to the effect that the chair appoint a committee of five to arrange for suitable headquarters for the American Bankers Association further away from the congested districts possibly in the environs of New York.

The speakers who favored keeping the headquarters of the Association in New York were John H. Puelicher of Milwaukee, Colonel William Edens of Chicago, Craig B. Hazlewood of Chicago, Judge Thomas B. Paton of New York, John C. Mechem of Chicago, J. A. Pondrom of Dallas, Thomas R. Preston of Chattanooga, R. S. Hecht of New Orleans, W. J. Evans of Dallas, Richard S. Hawes of St. Louis and Francis H. Sisson of New York. Those favoring removal were Thomas B. McAdams of Richmond, O. Howard Wolfe of Philadelphia; Waldo Newcomer of Baltimore, who suggested that the Council compromise by going to Baltimore, and F. G. Addison, Jr., of Washington, D. C., would have welcomed the Association's removal to the capital.

Mr. Puelicher's amendment was carried and President Lonsdale appointed the following committee: Rome C. Stephenson, Dan V. Stephens, J. H. Puelicher, F. N. Shepherd and John G. Lonsdale.

H. Lane Young, of Atlanta, Ga., Chairman of the Agricultural Commission, reported that work had been continued along the lines which experience had already demonstrated were effective in encouraging banker-farmer activities. These include agricultural committee conferences, meetings of key bankers and county agents, bankers' short courses and banker-farmer tours. He said that the number of "key bankers" had increased by 341 during the past year, reaching a present total of 2497. He called attention to the fact that 3048 farmers, also boys and girls had taken up project work through the influence of the bankers. He submitted charts showing that 360 meetings had been held

(*Continued on page* 1173)

Who Should Get Reserve Bank Earnings?

Possible Effects of Profit-Making Motive in Federal Reserve Operations Examined. Economic Policy Commission Questions the Wisdom of Any Measure that Would Place Undue Emphasis on Profits. Might Jeopardize Fundamental Purposes of System.

A MORE generous distribution of Federal reserve earnings to member banks would involve questions of major economic importance, according to data collected by the Economic Policy Commission. Rudolf S. Hecht, president of the Hibernia Bank and Trust Co., New Orleans, and chairman of the commission, furnished the Spring Council Meeting in Old Point Comfort, Va., information aimed to turn on the light and clarify discussions.

Since the organization of the Federal Reserve System in 1914 down through 1929, reads a part of the commission's report dealing with this subject, the aggregate net earnings of the twelve banks have amounted to $515,215,983. Of this, $90,672,460 has been paid to member banks as dividends under the provision that 6 per cent on paid-in capital shall be disbursed to the stock; $277,433,949 has been passed to the surplus of the Federal reserve banks under the provision that all net earnings of each bank after payment of dividends to members shall be transferred to its surplus account until it amounts to 100 per cent of subscribed capital; and $147,109,574 has been paid over to the Government as a franchise tax.

Tax Volume Varies

THIS last was under the provision that each Federal reserve bank after paying its dividends, after completing its surplus and after payment of an additional 10 per cent of annual net earnings into surplus, shall pay over all the remainder each year to the Government as a franchise tax. The bulk of this payment of over $147,000,000 to the Government was made in the years 1919 to 1923 inclusive, when $137,866,763 was paid as franchise tax; since 1923 through 1929 only $8,108,577 has been so paid.

In the past two years, however, there has been a marked increase in these franchise tax payments, which come only from the banks which have completed building up their surplus; in 1928, $2,584,659 was paid to the Government and in 1929, $4,283,231. At the end of 1929 the Federal reserve banks of Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City and Dallas all had surplus accounts in excess of their subscribed capital and it was from these that the payment of $4,283,231 came. With the completion of the surplus of the other banks the payments to the Government will increase further.

> ## Human Factor
>
> *WHENEVER the question of Federal Reserve System profits has arisen, discussion tends to move straight to the human factors involved. If Federal reserve banks were given encouragement to increase their earnings, would the desire for success tempt reserve officials to enter into active competition with the country's banking system? The accompanying article summarizes the arguments for and against giving members a greater share of Federal reserve earnings.*

Soon All Will Pay

THE time of completion of all the surplus accounts does not seem very far distant. At the end of 1929 subscribed capital of the Federal reserve banks amounted to $341,951,000 and the aggregate surplus stood at $276,936,000. On the face of these figures the surplus has only about $65,000,000 to go before it will equal subscribed capital and since the aggregate increase in 1929 was $22,536,000 it seems fair to assume that within three or four years the surplus will be complete. The actual period for each bank is dependent upon the two factors of its earnings and the amount of its subscribed capital which in turn depends on capital and surplus of its member banks.

In this connection it is pertinent to keep in mind that the surplus of every one of the twelve Federal reserve banks is already very considerably more than 100 per cent of the paid-in capital which is of course half of subscribed capital. Aggregate paid in capital now stands at $172,000,000 for the twelve banks and the surplus at $277,000,000.

Why Some Members Ask More

VARIOUS proposals have been made that the member banks of the Federal Reserve System should be permitted to participate more largely in the net earnings of their respective Federal reserve banks in some equitable ratio relative to their contributions of funds to the Federal reserve banks either as capital or deposits. The point is made that excessive payments have already been given to the Government under the guise of the franchise tax and that further excessive sums are bound to be paid over in the future with the completion of the surplus. It is argued that there is no equitable fiscal reason for paying such large amounts to the Government whereas the banks whose funds create these earnings have a just claim to a larger participation in the net profits of the Federal reserve banks. It is further held that more generous treatment would increase the loyalty of banks now in the system, especially smaller country banks which have a hard time at best in making adequate earnings on their capital and would also tend to draw more banks into the system thereby serving a sound purpose in strengthening the system.

Not Much Per Bank

IN this connection it might be well to point out that a proposed increase in dividends would after all be a very small financial inducement to present or prospective banks. We were just working on a computation to illustrate this when a study by a reserve bank came to hand.

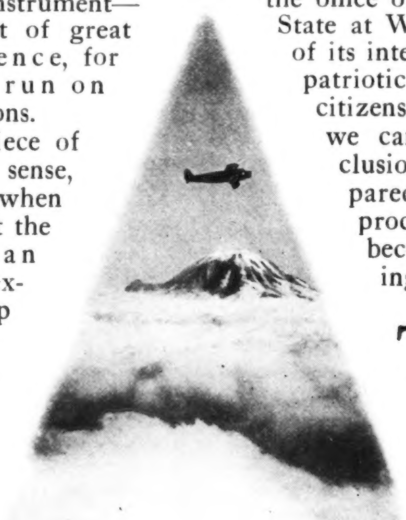
(Continued on page 1185)

The Great Seal at Washington

SOMEONE brings to me a photograph of the Great Seal of the United States Government which seal is stamped on all treaties, passports, proclamations and other important documents.

Every important chapter of the history of our country begins and ends with the coming together of the two faces of the instrument—the fine axial point of great events, whose influence, for good or ill, will run on through the generations.

It is a simple piece of mechanism, in one sense, but extraordinary, when one realizes that by it the will of the American people is finally expressed — a stamp which often culminates years of effort, occupying thousands of minds and millions of dollars—the actions of armies and navies. The Great Seal, in short, is an instrument to stimulate the imagination, either back over the past, or forward into the future, but lest anyone go into ecstasies over it, there are other seals of superior mechanism and producing really wonderful results.



All great minds (and the lesser ones also) have a seal which, by a subtle, silent process, is set upon the resolutions of those minds. Sometime, somewhere, Lindbergh silently set the seal of his will upon his mental resolution to fly the Atlantic—a momentous moment for him, and for the world.

Washington, Nathan Hale, Commodore Perry, Lincoln, Disraeli, Edith Cavell, Sergeant York, John J. Knox, who engineered the resumption of specie payment, Alexander Graham Bell, each had his or her own great seal with which they set their resolutions, and without which they would not have accomplished those things for which they are famous.

And, though the instrument in the office of the Secretary of State at Washington loses none of its interest, and none of the patriotic reverence that good citizens may accord to it, we cannot avoid the conclusion that, when compared with the subtle process of the mind, it becomes just an interesting instrument.

THE Great Seal of the United States may express the will of 120,000,000 people on a document without causing even a ripple of general public interest but today and now, as you read, some unknown man may be unpretentiously and silently putting the seal of his will on an unwritten, unspoken resolution that will make history—while his neighbor puts a dab of wax on the back of a common letter.

Seals on the back of letters are pleasant little ornamental trifles over which many persons are punctilious, but—

How often do you use the Great Seal which was given to you that your own Life might be made effective?

James C. Clark

The Proposed Bank Tax Amendment

By THOMAS B. PATON
General Counsel, American Bankers Association

Agreement Reached Between Committee of the American Bankers Association and Committee of the Association of States on Bank Taxation by Which Section 5219 is to be Modified. Integrity of the Protective Principles of the Section Maintained.

AFTER months of conference and negotiation between the Special Committee on Section 5219 of the American Bankers Association, of which Thornton Cooke of Kansas City, Mo., is chairman, and the Committee of the Association of States on Bank Taxation, of which Senator George H. Sullivan of Stillwater, Minn., is chairman, an agreement has been finally reached by the two committees upon a form of amendment to Section 5219 United States Revised Statutes which, in the judgment of the American Bankers Association committee, maintains the integrity of the protective principles of that section and at the same time is satisfactory to the committee of tax commissioners. The final agreement was reached after an all-day session in Washington on May 8, participated in by a full representation of both committees; and on May 9, at a hearing before the House Committee on Banking and Currency, the agreed upon draft was presented with request that it be substituted for the pending Goodwin bill and was supported by representatives of both committees. On May 20, the agreed upon draft was introduced in the House by Mr. Goodwin of Minnesota, and can be identified by its number, H.R.12490. As matter of information, the situation leading up to the present proposed amendment will be briefly sketched and an attempt will be made to analyze and explain the provisions of such amendment.

Outline of National Bank Taxation

IN 1864, shortly after the inception of the National Bank System, Congress passed a law which permitted the states to tax the real estate of national banks and to tax the shares as the property of the shareholders, but not at a greater rate than was imposed upon other moneyed capital in the hands of individual citizens of the state. This law was slightly amended in 1868 and was afterwards incorporated in the Revised Statutes as Section 5219. The statute remained without further amendment until 1923, when it was again amended by the addition of an income tax alternative, which amendment was amplified by an additional amendment in 1926. Long before these amendments, the Supreme Court had interpreted the phrase "other moneyed capital" to be such only as was in competition with national banks. The necessity for the amendments of 1923 and 1926 will be briefly explained in the following paragraph:

Reason for 1923 and 1926 Amendments

WHEN the statute (Section 5219) was first enacted, the states generally derived most of their revenue from a uniform tax on property, real and personal, but with the vast expansion of industrial enterprise carried on by the corporate form of organization, there resulted an enormous volume of personal property of an intangible character, consisting of notes, bonds and other evidences of indebtedness elusive to the tax-gatherer and which, from its nature, it was impracticable to reach for taxation at the general property rate. This led one state after another to adopt the expedient of classifying personal property for taxation at different rates and to place a low millage rate upon this character of intangible personal property, a rate frequently fixed at 3, 4 or 5 mills to the dollar of valuation as compared with a very much higher general property rate. The result of the establishment of these low intangible rates led to considerable increase of revenue from this class of property; but when, in 1921, the Supreme Court of the United States in Merchants National Bank v. Richmond, 256 U.S. 635, held that the low rates established by the State of Virginia were upon a class of other moneyed capital which competed in substantial degree with the business of national banks and that Section 5219 was violated, the tax commissioners of a number of states sought an amendment of that section which would permit their states to continue such low rate of taxation of intangible personal property. In brief, they sought to substitute for the "other moneyed capital" limitation a restriction permitting the states to tax national bank shares at a rate no higher than imposed upon state bank shares or upon other moneyed capital employed in the business of banking.

This character of amendment was opposed by the American Bankers Association on the ground that it would enable any state to place banks in a class by themselves without proper safeguards against unlimited taxation, and was not adopted by Congress. But relief was accorded by an amendment of the section in 1923 so that, in addition to permission to tax the shares at no greater rate than upon other competing moneyed capital, a state might, as an alternative to a property tax on national bank shares, impose a tax on the net income of the bank at no higher rate than assessed upon other financial corporations nor higher than the highest of the rates assessed upon mercantile, manufacturing and business corporations; and as an additional alternative, permission was given to include dividends in the taxable income of the shareholder. Later it having developed that certain states desired to tax banks on the income basis along with business corporations, but only if they could include income from tax-exempt securities, an amendment by Congress in 1926 added a fourth alternative permitting the states to tax national banks "according to or measured by their net income" received from all sources. The reason for this amendment was the fact that under a direct income tax, the income from Federal, state and municipal bonds could not be taxed, and as banks were much larger holders of such tax-exempt securities

than were business corporations, a straight income tax would have imposed a greater burden of taxation upon the latter.

The Present Section 5219

SECTION 5219, as amended in 1923 and 1926, is the law as it stands today, and it will be useful at this point to have a concrete picture of its provisions that the changes which will be made if the proposed amendment is adopted may be more clearly seen and the reasons therefor better understood.

The present Section 5219 permits state or local taxation of national banks or their shareholders in one or the other of the four following forms:

1. The shareholders upon their shares. (A property tax.)
2. The shareholders upon their dividends. (A personal income tax.)
3. The bank upon its net income.
4. The bank according to or measured by its net income.

Only one form of tax can be imposed, except that the dividend tax (2) may be combined with (3) or (4), provided financial and business corporations and their shareholders are likewise taxed. The conditions upon which the above forms of taxation are now permitted are:

1. The property tax on the shares must be at no greater rate than is assessed upon other competing moneyed capital.
2. The income tax on dividends of shareholders must not be at a greater rate than assessed upon net income from other moneyed capital.
3. The tax on the net income of the bank must not be at a higher rate than assessed upon other financial corporations nor higher than the highest of the rates assessed upon mercantile, manufacturing and business corporations doing business within the limits of the state.
4. The tax, according to or measured by the net income of the bank, is subject to the same limitations as to rate as in case of the tax on net income of the bank but may include the entire net income received from all sources.

Section 5219 contains the additional provisions that shares owned by non-residents of a state must be taxed where the association is located and the bank must make return of the shares and pay the tax as agent of non-resident shareholders; also that nothing in said section shall be construed to exempt the real property of national banks from taxation to the same extent, according to its value, as other real property is taxed.

Diversity of State Taxing Systems

NATIONAL banks and their shareholders are taxed in different states under a diversity of systems.

1. In about half the states all property, including national bank shares, is assessed uniformly at the general property rate; and in a few such states the general property tax is supplemented by an income tax on corporations, from which national banks, but not state banks, are exempt.

2. In one state (Pa.) the property tax on national bank shares is at the same low millage rate which is imposed on other competing moneyed capital; but in fixing the taxable value of the shares, the value of the real estate of the bank, separately taxed, is not deducted.

3. In nearly half the states, intangible personal property (other moneyed capital) is classified and taxed at a low millage rate; in many of these states the general property rate has been imposed upon bank shares, leading to litigation, while in others an intermediate rate, higher than the low millage rate and lower than the general property rate, is imposed.

4. One state (Wisconsin) imposes a direct income tax on national banks and corporations.

5. Five states (Massachusetts, New York, California, Oregon and Washington) have adopted a system of excise taxation, measured by net income from all sources, applicable to national banks and corporations under the fourth alternative of Section 5219.

Conditions Leading to Proposed Amendment

SINCE the amendment of Section 5219 in 1926, the Supreme Court of the United States in several cases following the Richmond decision has made it clear that the low millage rate imposed by several states upon intangible personal property is in violation of Section 5219, because the shares of national banks in such states have been taxed at a rate greater than that assessed upon competing moneyed capital.

A number of states, unwilling to resort to the income methods permitted by Section 5219, have been faced with the alternative of either repealing the intangible tax laws, which they do not desire to do, or limiting the taxation of national bank shares to the intangible rate. The representatives of these states have, therefore, sought relief from Congress by a broadening of the permissive provisions of Section 5219, and their original demand was for an amendment which would permit the state taxation of national bank shares at no greater rate than imposed upon other moneyed capital employed in the business of banking. Such an amendment is now contained in the present Norbeck bill (S.1550).

A further suggested amendment proposed by the tax commissioners of these states was an addition to the above limitation, that the rate upon bank shares should not be higher than imposed upon commercial real estate in the locality of the bank. Both of these propositions were opposed by the bankers. Still later, the tax commissioners suggested that as a substitute for the "other moneyed capital" limitation, the states be permitted to tax national bank shares, provided the burden was no greater than imposed upon financial, mercantile, manufacturing and business corporations. It was pointed out that the rate assessed upon such corporations was the protective limit fixed by Congress where states taxed national banks on the income basis, and that the same corporation comparative might, under proper restrictions, be made equally applicable to the taxation of the shares.

Pending this proposition, came the decision of the Supreme Court of the United States on May 27, 1929, in Macallen Company v. Commonwealth of Massachusetts, which held that an excise tax levied by the State of Massachusetts upon domestic business corporations for the privilege of doing business, was invalid, insofar as it included income from bonds of the Federal and local governments as part of the measure of the excise. While this decision was not rendered in the case of a bank, and there were certain peculiarities in the Massachusetts legislation not present in the legislation of other states which have adopted the excise system of taxation of national banks measured by net income from all sources under the fourth alternative of Section 5219 and the representatives of these states do not admit that their respective laws are invalid, nevertheless the decision has created sufficient doubt in the minds of the tax representatives of New York and Massachusetts as to the validity of their systems of excise taxation of banks to cause them, also, to seek relief from Congress by some broadening of the permissive provisions of Section 5219.

Conferences upon Amendment

UNDER these conditions, the Special Committee on Section 5219 of the American Bankers Association have, during the last six months, had numerous and protracted conferences with the Committee of the Association of States on Bank Taxation to see if some common ground of agreement upon an amendment could be reached which would protect the banks, satisfy the tax commissioners and avoid a contest in Congress. From the standpoint of the tax authorities, the two main objectives have been (1) an amendment which would permit certain states to retain their low rate tax upon intangibles and at the same time derive an adequate but not an excessive revenue from national bank shares, and (2) an amendment which would permit states, like New York, to tax corporations on their net income, excluding income from tax-exempts, and at the same time derive the same revenue from the banks as heretofore.

From the standpoint of the banks, it has been deemed imperative that the integrity of the protective principles of Section 5219 be maintained and that no amendment should be conceded which would infringe upon such integrity. The result has been an agreement upon the form of proposed amendment which is printed at the end of this article.

Nature of Amendment

THE present Section 5219 is retained substantially as at present, with some slight changes in phraseology, with its four alternative permissive methods of taxation of national bank shares, dividends, bank income and tax according to or measured by income, except that there has been (1) a modification of the ad valorem share tax moneyed capital limitation applicable to certain states only and with the addition of other protective limitations, and (2) an addition of a fifth alternative method of taxation of the shares, namely, a specific tax.

1. The existing provision permitting taxation of bank shares no higher than the rate upon competing moneyed capital has been modified with respect to certain intangible tax states only by a provision under which, instead of the moneyed capital limitation, the rate shall not be greater than (1) the rate upon the shares of other financial corporations (2) nor upon the net assets of individuals, partnerships or associations employed in the banking, loan or investment business, (3) nor higher than the rate assessed upon mercantile, manufacturing and business corporations having their actual principal place of business within the state.

The permissive taxation of national bank shares under the three protective limitations above outlined, is subject to the following further limitations and requirements with respect to limitation of the rate to that assessed upon mercantile, manufacturing and business corporations:

(a). The rate cannot be higher than to yield an aggregate amount which is no greater proportion of the total taxes paid under authority of the state to the net profits of national banks than is the proportion of total taxes paid by such other corporations to their net profits. In other words, if the aggregate net profits of the business corporations of a state are $100,000,000 and their total taxes are $5,000,000, such corporations would pay 5% of their net profits in state and local taxes. If the aggregate net profits of the national banks of the state were $25,000,000, the aggregate ad valorem tax on national bank shares would be 5% of this amount or $1,250,000. The property rate on each share would be determined by dividing this amount by the total value of shares taxable in the state. Assuming the aggregate value of all the shares of national banks within the state was $62,500,000, the rate would be 2%, which would yield $1,250,000. Under such comparison the method of valuing the shares is immaterial. If the aggregate value of the shares was fixed at $125,000,000, the rate would be 1%. The provision for an income comparative as distinguished from a property comparative, in determining that the rate upon bank shares shall not be higher than assessed upon such business corporations, is the only practicable means of ascertaining equality of burden. The laws of most states now provide a uniform rate of property taxation upon bank shares and upon business corporations, yet such uniform rate does not result in an equality of burden. Statistics prove that, when measured by income, bank shares are largely overtaxed as compared with the net assets of business corporations, this for the reason that the value of bank shares is readily ascertainable while there is no practicable means of ascertaining and fixing the true taxable value of the net assets of other corporations.

(b). The permission to low rate intangible tax states to tax national bank shares as above outlined, without restriction to the moneyed capital limitation, is further confined to those states which require the corporations named to file annually with state officials, verified statements showing their total net profits and the total state taxes as reported to the Federal Government and to publish annual statistics showing the aggregate of net profits of and total taxes imposed upon (1) national banks; (2) all other financial corporations; (3) mercantile manufacturing and business corporations, which statistics are made competent evidence of the facts therein contained. This provision affords a means of ascertainment whether or not the limitations upon the share tax rate are exceeded as well as a means of proving discrimination should bank shares be overtaxed.

(c). The draft further provides a definition of "net profits" and "aggregate net profits."

2. An additional permissive method of taxing bank shares is provided, designated as a specific tax. This permits a state, instead of an ad valorem tax on bank shares, to add together the total dividends paid during the preceding year and the amount by which the capital, surplus and undivided profits at the end of the year exceeds such amount at the beginning of the year (less additions to capital or surplus paid in by stockholders during the year) and divide such total by the number of shares issued and outstanding at the end of the year. The state may tax the shares based upon this amount, but the rate must not exceed the rate assessed upon other financial, mercantile, manufacturing and business corporations having their actual principal place of business within the state in proportion to the net profits of such corporations. This method is designed for states, such as New York, which have heretofore taxed national banks upon their entire net income from all sources at a proportionate rate to that assessed upon business corporations. It will be observed that the amount which is the basis of the tax is the equivalent of the entire net income from all sources; but being assessed against the shareholder upon his property in the shares and not a tax upon the bank, it is not open to the objection that it is an indirect attempt to tax exempt income. The Supreme Court in an unbroken line of decisions has upheld the taxation of national bank shares, although included in the taxable value is the value of tax-exempt securities; the same principle, is, therefore, applicable where, instead of the shareholder being taxed upon the entire value of his shares, he is taxed upon that proportion of that value which is represented by the year's increment. A small minimum tax is permitted where there is no increment.

Incidental Changes

THE remaining changes in the existing law are, for the most part, incidental to the principal changes above described. These will be briefly summarized:

(a). The provision that intangible tax states must require the filing and make publication of corporation statistics of net profits and total taxes as a prerequisite to permission to tax bank shares otherwise than at the "other moneyed capital" rate is extended to states which impose a specific tax on national bank shares or a tax on or according to or measured by net income: but the requirement does not apply where a state imposes the same fixed statutory rate upon or according to or measured by net income applicable to banks and to financial, mercantile, manufacturing and business corporations. Furthermore, states which impose a tax upon corporations other than banks on or according to or measured by their net income and require such other corporations to file returns showing net income and net profits and a statement of reconciliation of net income, need not require a further statement from such corporations and the statistics may be derived from such returns and from state official records with respect to taxes other than real estate imposed on such corporations.

(b). An addition is made to the provision of the existing Section 5219 permitting a tax on banks on or according to or measured by net income which allows a state (such as Massachusetts) that allocates the income of mercantile, manufacturing and business corporations derived from business carried on within the state, to use such allocated income as a limit instead of the limit now provided; with a further provision allowing a minimum tax upon national banks, measured by the amount of dividends declared during the year, if an equivalent minimum is made applicable to other corporations. This minimum tax is to enable the taxation of a national bank or corporation which may declare dividends though showing no net profits.

(c). The provision of Section 5219 which permits states to impose a tax on or according to or measured by net income of national banks, to also tax the dividends of shareholders provided the income and dividends of other corporations are likewise taxed, is broadened to permit the assessing of both a specific tax on shares and a tax on dividends if other corporations are subjected to income and dividend taxation.

(d). The provision of the present Section 5219 that the tax on or according to or measured by the net income of a national bank, shall not be higher than the highest of the rates assessed upon mercantile, manufacturing and business corporations, has been changed so that it provides that the tax shall not be "higher than the rate" so assessed; the intention being that the average rate shall be taken as the measure in all the forms of taxation involving a comparison of taxation upon bank shares or income with taxation of such other corporations.

Section Analysis of Amendment

BEFORE giving the full text of the proposed amendment, it may be useful to prefix a topical outline of the provisions of each section in regular order:

Section 5219. Five forms of taxation permitted, two on shares (ad valorem and specific), one on dividends (income), two on bank (income or measured by income).

Subsection 1 (a). Only one of five forms permitted with exception of combining dividend with income or specific tax under certain conditions as provided in subsection 1 (f).

Subsection 1 (b). Ad valorem tax on shares limited to rate on other competing moneyed capital, except where low rate on intangibles, tax on shares limited to rate on (1) shares of other financial corporations; (2) net assets of individuals, partnerships

(*Continued on page* 1166)

EDITORIAL

The Principle Concerns All

SOME time ago the practice of transmitting by mail currency for use in payrolls from St. Louis to Granite City, Ill., was discontinued by the refusal of the Postoffice Department to perform this function. The postal authorities refused because of the possibility of losses by banditry occurring in transmission.

This is more than a local incident involving only St. Louis and Granite City. It involves a principle in which the whole of the United States is concerned. In effect, the Postoffice Department, by the attitude it has taken, has said we can not function to full capacity because there are robbers abroad and we fear them. This Government must keep off the road as much as it can with valuable mail; ordinary mail which the bandits would not seek from us we will deliver, as usual.

Contrast the foregoing policy with that of the Government in 1894, when, following the Pullman employees' strike, there was a concerted effort to obstruct the mails. Grover Cleveland, then President, declared that if it took the whole United States Army to deliver a post card to La Salle Street, Chicago, the Army would be so employed. Federal troops were employed to the end that the mails be protected and the functions of the Postoffice Department might be performed.

In recent years, the Government used Marines in New York City and elsewhere to protect the mails. There is, therefore, abundant precedent for using whatever of the military forces of the nation may be necessary to uphold the hands of the Government—if precedent be needed.

The Government can not afford to give up any of its functions through fear. The sovereign rights of the people should not give way before the lawless. Not only should the Postoffice Department carry all that it is, by law, authorized to carry, but it should take such measures as shall insure safety in transmission. The danger that is involved in no way affects the principle that the Government and its laws are supreme, and that there should be no weak yielding to the lawless. Nor is the principle affected, altered, or clouded by the contention that there are other and safer ways of sending money. In fact, as well as in theory, the mails should be made as safe as all the power of a great government can make them. The post card must still be sent to La Salle Street—cost what it may!

The incident was brought to the attention of Congress on May 5 when Congressman Irwin of Illinois introduced in the House a resolution that:

"The Postmaster General is hereby prohibited from discriminating between individuals, firms, corporations, and communities in performing the duties necessary to the receipt, transportation, dispatch, and delivery of registered mail matter."

Detaching the incident from its official aspect, it may be looked upon as a symptom of a weakness that is growing upon the American people—a tendency to sheer away from the difficult or disagreeable, and to yield up much for comfort and the chance to follow our own ways in peace. Considerations of community duty, civic duty, or, any desire to render a public service by combating evil, give way, too often, to expediency.

Our forefathers, not having so many marvelous ways to amuse and entertain themselves, had clearer conceptions of citizenship, and, perhaps, man for man held citizenship higher than does the average man today.

A Revolt in the Machine Age

IT has been a long time coming, but it has come at last—the revolt of man against the tyranny of the machine.

For a long time men, here and there, have suspected that our marvelous machines, though accomplishing wonders of work for us, were, themselves, somehow, making us work pretty hard. The machines were, in effect, developing a certain tyranny and were insidiously becoming a burden upon us.

The most familiar sign of this transition from servant to master is found in the new philosophy which has as one of its basic tenets the thought that the machines must be kept running. If their output capacity is enormous, so their consumption needs are enormous. The song, describing the poor Oriental who, receiving an elephant as a gift from his monarch, found himself a virtual slave to the beast's appetite, was popular before the highest development of the machine age, but it had none of the significance that might be attached to it today. The Oriental implored his sire to take back the brute, for the subject had to work all night and work all day to keep the elephant fed with hay.

The revolt against the machine came in the United States Senate last month when Senator Glass, referring to new telephones recently installed, complained that the dial system made him an employee of the telephone company, without compensation. The Senate adopted a resolution ordering that 450 dial telephones be taken out. The revolt spread to the House and a resolution was introduced there also for the removal of the dial telephones.

On the eve of the French revolution a wine vendor said to his wife after a day of rioting in which he had been a leader.

"At last it (the revolution) has come, my dear."

"Eh, well!" returned madame. "Almost."

The marvelous machine has become such a deity in the hierarchy of lesser deities surrounding the central diety Success, that such a revolt hardly could have been staged anywhere else than in Congress, where the members are immune from immediate reprisals.

The Larger Cycles

A FEW years ago an export and import house in Cape Town, South Africa, constantly employed sixty experts, sorting ostrich feathers, and, up in the veldt, hundreds of families made comfortable in-

comes, operating ostrich farms. Now, the commercial house neither buys nor sells feathers, the ostriches run wild and the erstwhile ostrich farmers gain their livelihood in other ways.

This change came when, with the rise of the automobile, new styles in millinery—sans feathers—were devised; so the automobile that gave a certain freedom to mankind brought about freedom also to the big birds, and loss of income to the owners.

If, in our own country, we look for the reason why the Federal Census shows startling shifts in the population, we will find comparable cases. Someone has invented, devised or achieved something new, with the result that new demands and new markets are developed and old markets decline.

In the census returns also, incomplete though they are at this writing, there is indisputable evidence of the existence and operation of a larger cycle of business.

Like the one-crop farmer, the city with one main line of industry begins to run down when the cycle of that main industry approaches completion, and, be it long or short, all enterprises, like the men who work on them, have their cycles of life.

As time goes on, these changes come upon business with startling frequency, and there is no escape—no safe refuge from them.

The nitrate beds of Chile are far removed from the great business centers, but news dispatches herald radical changes in their operation, because of the competition offered by synthetic nitrogen.

It is well—if we can—to wipe out the so-called ordinary business cycle—the little depressions which seem to recur with something approaching regularity, but, perhaps over a long term of years, there may be even greater gains by giving attention to means whereby communities and individuals may not come to hard times because their leaders cannot realize that everything runs in cycles—often of such great diameter that they may run over several generations.

A Trend Away from Banks

THE study of national savings and what becomes of them, by Joseph Stagg Lawrence, printed on page 1105 of this issue of the JOURNAL should be of value to every banker. It reveals an astonishing diversion of savings away from banks and into other institutions. It clearly shows a trend whose course in future years should be a matter of present concern to every thoughtful banker.

From this analysis it appears that if banks are in the future to continue to hold their preeminent places as custodians of the greater part of national savings they cannot ignore this trend, and as the trend has taken its course despite a variety of efforts on the part of banks to develop new business, it seems to be plain that present efforts are not sufficient to turn its course.

Statistics relative to the growth of individual banks sometimes are likely to be misleading. Too much satisfaction may be derived by comparing a present gain with the business of last year, or appraising it by comparing it with the condition of a competitor. The satisfaction following such comparisons might be tempered down if, following the line of investigation made by Mr. Lawrence, there were obtained even a very crude answer to the question:

"How do our gains in deposits compare with what we might have obtained out of all that there is to compete for?"

A Better Index

THE Commission on Bank Management at its last meeting discussed a new and a better form of index of the volume of banking than the time-honored "clearings." The present system has its virtues but "debits to individual accounts," the Commission decided was preferable. The "clearings" system has its merits but it also has very obvious disadvantages, outstanding among which is the fact that it is of necessity inaccurate.

"One of the chief criticisms of the old independent banking system was its lack of cohesion and reciprocal inter-relationship," says C. A. Chapman, president of the First National Bank of Rochester, Minn. "There was outside the great cities no machinery provided for assembling in an orderly and periodical grouping of volumes the total of transactions passing through the whole of the individual banks within given areas. 'Clearings' have become objectionable as an index because they cannot be freed from duplications, are cumulative of these duplications, and lack universality.

"The general extension of the system of clearinghouses throughout the United States to a total of more than 400 and with cooperation of the Federal reserve banks has finally provided the machinery through which can be produced a much more satisfactory index capable of clearer precision and analysis, namely, 'debits to individual accounts.' At the moment this is the best available index and this fact is coming more and more into general recognition. Throughout the country there is a concerted demand for the general use of this index and its replacement of the clearings index as soon as this can be done. Each individual bank, either through its clearinghouses, or directly through the Federal reserve bank of its district, cooperates in furnishing the necessary figures monthly or, if found desirable, at shorter intervals."

The Commission recommended that as rapidly as possible the new system be adopted "to the end that as soon as it can be done conveniently this new index should come into universal use to the exclusion of all others."

Has Finance Outgrown Its Machinery?

SIR JOSIAH STAMP, internationally known economist, banker and railroad executive, believes that world finance has "completely outgrown its machinery." He points to the fast and increasing complexities of debts, reparations, gold movements, tariff walls and international balances, as proof that the methods of a few years ago are wholly inadequate to the new tasks which face the bankers of all countries.

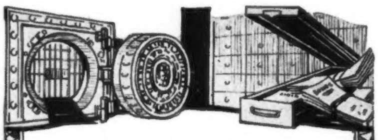
In an address made before the Academy of Political Science in New York he said that the development of better machinery would be ineffective without a "general raising of the economic thinking of the great masses concerning financial questions."

He urged, among other steps, the demilitarization of international finance and the elimination of retaliation and ill-will as factors in determining economic action.

DO things for mankind and mankind will tax itself to pay for them. If, for illustration, some government had placed a perpetual tax on the people for using each of Edison's outstanding inventions, that tax probably would have been much lower than the sums the people themselves are paying day-by-day for the privilege of using these inventions.

Productiveness as the Test for Rediscount

Dearth of Credit Instruments Discountable at Federal Reserve Acute in Some Areas. Total Amount of Ineligible Paper and Securities Held by Banks Rose 51 Per Cent. Since 1925. Plan for Extending Eligibility Rules Regarded as Not Wholly Sound.



Eligible Paper

LIBERALIZING the rules of eligibility for rediscount so as to include finance company paper, municipal and railroad bonds, says the Economic Policy Commission, would tend to create easy money when it is not needed. It is pointed out that finance paper is consumer credit while present types of eligible paper were chosen because they represented productive enterprises. "The original impulse for credit expansion," the commission finds "should come from actual increased consumer demand."

THE basic source of proposals aiming to liberalize the rules governing eligibility of paper for rediscount at Federal reserve banks is the marked shrinkage recently in the volume of various classes of paper now eligible. This is the view of the Economic Policy Commission, according to a report submitted by the Chairman, Rudolf S. Hecht, president of the Hibernia Bank & Trust Co., New Orleans, at the Spring Meeting of the Executive Council in Old Point Comfort, Va. The report, which follows, recognizes the seriousness of the situation but urges caution and stops with a presentation of the facts.

Sound Federal debt retirement policies have resulted in a contraction in the United States Government securities at the rate of almost a billion dollars a year. In 1924 the volume of Federals was $21,000,000,000. In 1929 it was down to $16,600,000,000. This is a shrinkage of $4,400,000,000 in five years or almost 21 per cent.

Less Commercial Paper

AS to open market commercial paper there has also been a great contraction. In 1924 there was outstanding in the New York market which represents about 90 per cent of the national total, $925,000,000, in commercial paper. In September, 1929, it was down to $265,000,000. Here is a shrinkage in five years of $660,000,000 or over 71 per cent. As to eligible paper in the hands of Federal reserve bank members, in 1926 when their total loans stood at $22,000,000,000 this was reported at $4,900,000,000. That is, about 22 per cent of their loan portfolio was composed of eligible paper. Last December when their total loans stood at about $26,200,000,000 eligible paper amounted to only $4,400,000,000 or about 16.7 per cent. Here was a drop of $500,000,000, or 10 per cent, in the volume and over five points or 24 per cent in the ratio.

These changes reflect in part at least the driving out of large numbers of middlemen, who formerly created considerable volumes of commercial paper, by chain store and other direct merchandising methods and also the rise of the practice of large corporate units to replace bank loans with security issues.

Acceptance Volume Rises

THE only class of eligible paper that has shown an expansion in this period has been bankers' acceptances. In December, 1924, the volume outstanding was reported at $821,000,000. In December, 1929, it reached a point of $1,730,000,000, an increase of nearly a billion. However due to the low rate of yield this form of paper has not been expedient for banks to carry in any great volume. The total bills and acceptances held by the member banks in December, 1929, amounted to only about $290,000,000. This therefore has not materially helped the situation.

There is no question therefore that there has been a very serious contraction in available instruments eligible for rediscount or borrowing at the Federal reserve banks. On the other hand there has been considerable expansion in this period in the volume of non-eligible credit instruments. It is estimated that the volume of finance company paper arising from installment selling now in the hands of the banks is more than $1,000,000,000.

Loans On Stocks Mount

DURING the past four years also there has been an annual output of municipal issues in excess of $2,000,000,000 annually and a large increase in the volume of this class of security in the hands of the banks has been noted. In 1925 member banks held about $1,030,000,000 in city, county and municipal bonds, and last December they were reported as holding $1,220,000,000 in these issues. Also there has been a very large increase in recent years in collateral loans by member banks. In 1925 this item aggregated $6,720,000,000 and last December it stood at about $10,150,000,000, an increase of $3,430,000,000 or 51 per cent. So all in all there have been these distinct changes in the field of banking credit which have led some to feel strongly that a change in the eligibility rules was called for.

There is still another aspect of this subject that we have subjected to analysis with interesting results and that is the actual use of eligible paper for rediscounting and borrowing by the member banks. In December all member banks held loans eligible for rediscount to the amount of $4,397,000,000, United States Government securities to the amount of $3,863,000,000 and municipal warrants to the amount of $169,000,000, or a total of $8,429,000,000 in eligible instruments. However only about $879,000,000 or not much more than one-tenth was being used at the Federal reserve banks.

Going Back of the Figures

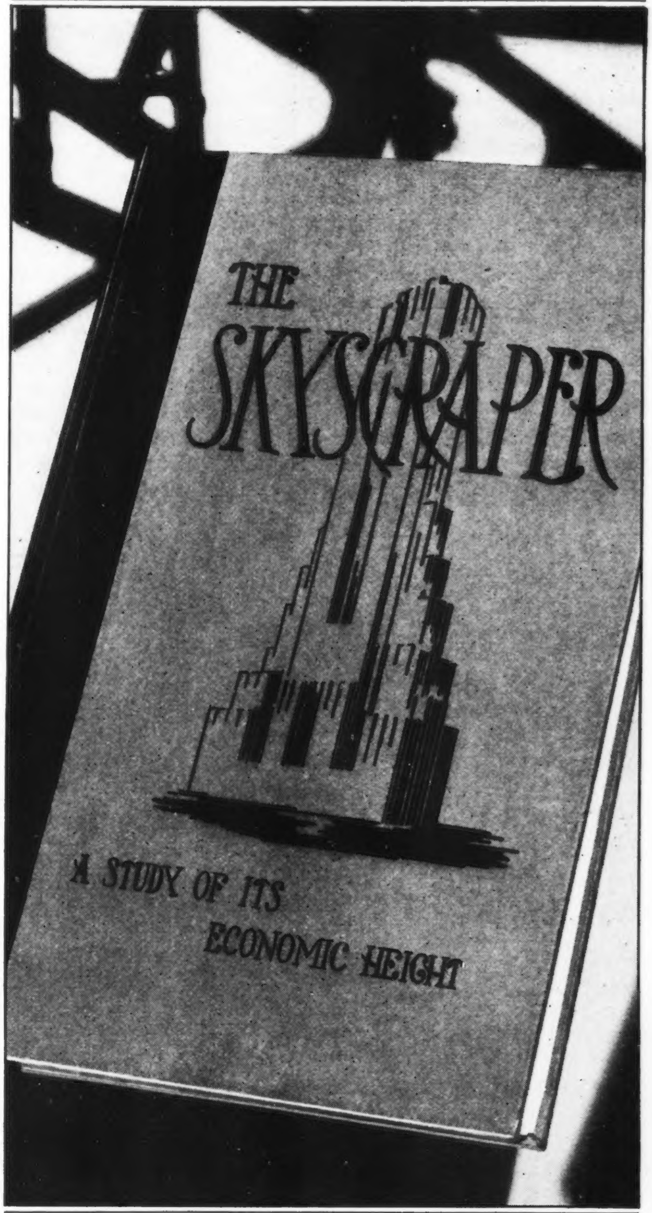
AS a general proposition therefore it would appear at first blush that the banks as a whole have no need for an enlarged supply of eligible paper since they are now using so small a

(*Continued on page* 1178)

STRUCTURAL STEEL CREATED THE SKYSCRAPER

IS THE SKYSCRAPER A MENACE?

THE SKYSCRAPER—a study of its economic height—by W. C. Clark and J. L. Kingston. 164 interesting pages of facts, charts, tables and drawings. *Published by the American Institute of Steel Construction, New York.* $2.



IS THE skyscraper an economic fallacy? A fire hazard? An assault on public health and safety? Shall it rise still higher or be banished from the face of the earth?

Into the raging controversy comes this clear, calm brief for the skyscraper. While admitting that the extremists are not all on one side, the authors recognize in the attacks of many *antis* "the eternal prejudice against 'the new' . . . which less than a century ago caused German doctors to protest against a railroad on the ground of danger to the health not only of those who dared to ride on it, but also of those unfortunate citizens who could hardly escape injury to health from observing the trains racing along *at 20 miles an hour.*"

Which side of the question are you on—and how far? Here's red meat for the *antis* as well as the *pros* and information so authoritative and comprehensive that no steel man, no architect, builder, executive or metropolitan realtor can afford to be without it.

Send check to the New York Office for your copy before edition is exhausted.

AMERICAN INSTITUTE OF STEEL CONSTRUCTION INC. AISC FOUNDED 1921

The co-operative non-profit service organization of the structural steel industry of North America. Through its extensive test and research program, the Institute aims to establish the full facts regarding steel in relation to every type of construction. The Institute's many publications, covering every phase of steel construction, are available on request. Please address all inquiries to 200 Madison Avenue, New York City. District offices in New York, Worcester, Philadelphia, Birmingham, Cleveland, Chicago, Milwaukee, St. Louis, Topeka, Dallas and San Francisco.

AMERICAN INSTITUTE OF STEEL CONSTRUCTION

STEEL INSURES STRENGTH AND SECURITY

How about Your reserve?

Are you and your staff suffering from nerve fatigue caused by office noise?

YOU are naturally interested in keeping the machinery of your bank moving smoothly. Yet if you are doing nothing about noise you are overlooking an ever-present producer of tired nerves, errors, illness. Only a staff which has adequate reserve power can do the daily job smoothly, and take on the peak loads. Reserve power cuts overtime, reduces absences due to illness and helps to solve the problem of vacations when the force is reduced.

The close attention, the accuracy required in bank work, make reasonable quiet essential. No one can do brain work in a boiler shop. And you might be surprised to know how close the noise index of many banks is, by actual test, to that of a boiler shop. In scores of banking and bookkeeping rooms and other departments of financial institutions, Johns-Manville has ended this noise problem. Not only does this lift the tiring load from the staff, but a quiet bank is a pleasanter place from the depositor's viewpoint.

The Johns-Manville method is simple. It makes no attempt to muzzle sound directly. We do not put silencers on adding machines, but we use a material on ceiling or walls—without any effect on decorative schemes—so that the excessive noise is absorbed, blotted out. A voice ceases to echo from one end of a room to another. A 'phone bell rings distinctly, yet without attracting the attention of twenty other persons.

Our results win commendation

Let us tell you about some of the banks from which we have banished the harmful, costly effects of excessive noise. One bank president has recently written us—"I want to tell you how pleased we are with the installation just completed of Acoustical Treatment on our ceiling. It does all you claimed for it in the way of reducing noise." This is a typical letter.

You will find our book on sound-absorbing treatment in banks helpful. May we send you a free copy? And let us know if a representative may call.

DIGNITY and resources are suggested by this modern banking room of the Central Hanover Bank & Trust Co. at 70 Broadway, New York. The effect is heightened by the use of J-M Office-quieting Materials to reduce noise to an undisturbing level.

Cross & Cross, Architects, New York City

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Chains, Groups and Branches

Inquiry Shows Rapid Trend Toward Multiple Banking. Groups Merge With Groups. Non-Independent Institutions of One Type or Another Hold About $30,000,000,000 in Loans and Investments Out of Total of $58,500,000,000 for All Institutions.

THE Economic Policy Commission, under the chairmanship of Rudolf S. Hecht, president of the Hibernia Bank and Trust Co., New Orleans, has spent one year measuring the strength and charting the course of chain, group and branch banking. It has reached some conclusions and reserves opinion on other matters for the future. Swift changes have altered the picture since the commission presented its preliminary report to the San Francisco Convention last fall. The commission reported its findings to the Spring Meeting in Old Point Comfort, Va., as follows:

Briefly summarized, the facts we presented at San Francisco indicated that we had received information regarding 273 groups or chains involving 1858 banking units and over $13,275,000,000 in combined resources. We found that these groups fell into three main classes, namely, those controlled by individuals, those controlled directly or indirectly by particular banks, and those held by non-banking holding companies which were not, nominally at least, subsidiary to any particular bank. We found that the latter type of organization was the one that had grown especially fast in the last two years and really constituted an important new situation in banking.

Status at That Time

WE presented these figures not as absolute mathematical data but as indicating what we believed to be an approximately accurate picture of the situation as it then stood, showing that between 7 and 8 per cent of the banks of the nation and over 18 per cent of the banking resources were then comprised in a great body of group and chain banking systems located in all but nine states and the District of Columbia. Subsequent investigation and developments have proved the correctness of our statements.

Our study, treating briefly of the organization administration of group and chain systems, their geographical distribution, the relationship of such distribution to branch and anti-branch banking territory, state legislative developments in respect to this new banking movement, the views of state bank commissioners and other details was issued in booklet form and gave to the country the first complete, authentic presentation of this subject.

Where We Are

TRYING to keep abreast of developments in mergers and consolidations among banks is a particularly difficult task at this time when each day brings its changes. Mr. Hecht and the Economic Policy Commission have not been satisfied with facts and figures alone but have tried to learn the attitude of the public, as well as of Government officials and bankers. This paper says frankly that it is too soon to judge results or forecast.

Factors Causing Changes

SINCE the compilation of that first report there have been further rapid changes in the banking world, especially among the group and chain bank systems and these have caused some changes in our data. Aside from statistical corrections which were minor, the more important factors tending to change our data are similar to those that are operative in the general field of banking, that is, failures of banks, voluntary liquidations, amalgamations and new organizations. All of these factors have been active in respect to group and chain banking, just as they have been active in respect to individual unit banking.

There have been a number of failures of small chains of banks controlled by individuals during the past six months. Most of these failures have taken place among small chains of country banks without any organic relationship other than common control by some individual, and we mention these failures merely because they did have an effect on our statistics, giving totals of numbers and resources involved in group and chain banking. There have been also several new group systems organized but these have not been extensive enough to alter the figures materially.

Groups Merge

MORE significant have been the factors of mergers, consolidations and absorptions in the field of group and chain banking. Just as many individual unit banks during the past year have absorbed or merged with other banks, so have a great many larger group organizations taken in not only many additional unit banks but also a number of smaller bank groups as a whole. There have also been numerous consolidations between strong bank groups. Furthermore many instances have come to our attention where consolidations of groups have been followed by consolidations within the group of banks that duplicated or over-supplied facilities in given localities.

These have been factors, of course, tending toward stronger, more compact banking whether from the angle of individual unit banking or from that of group or chain organizations. They have especially tended to increase also the volume of banking resources now held in group and chain systems at a very much faster rate than the increase in the number of systems or of member banks.

These facts are reflected somewhat in a comparison of our figures as between last October and the present time. Our files now contain information regarding 269 group or chain systems comprising 1922 member banks and $15,285,000,000 in aggregate resources. We do not make this as an exact comparison, however, but merely cite it as indicating the trend.

A Bird's-Eye View

WE have embodied in this report a table showing state by state the location of groups and chains as we now find them. These figures do not show any substantial difference in geographical distribution as compared with our previous report, either as to the number of chains and groups of banks in each state or the resources they represent,

except that now there are only six states and the District of Columbia where we do not now find any group organizations, whereas in October we reported nine.

The commission has also undertaken to develop information along the line of the administrative, operative and economic factors involved in this type of banking organization. We have been in touch with the managers of many important groups. Aside from the obvious economies of centralized operation and control, many of these organization heads very frankly tell us that they do not feel that the system has been in operation and tested long enough to justify them in making positive or sweeping statements as to its advantages or disadvantages as compared with unit banking in the larger economic viewpoint. The commission has nothing to report as yet on this phase of the subject. It will continue to give particular attention to it.

Gauging Public Opinion

IN accordance with the mandate given it by the San Francisco Convention the commission has likewise made it its duty to watch carefully the attitude of the public, of banking officials, and of legislators, both state and Federal, in respect to group and chain banking. The most important action in this field is that which has developed at Washington in the form of public hearings by the Banking and Currency Committee of the House which is conducting an investigation into many phases of banking developments, but most particularly in the two broad questions, first, whether general branch banking powers should be granted to national banks; and, second, what Federal action if any should be taken in regard to group and chain banking.

The Comptroller of the Currency has officially recommended the definite propostion that national banks should be given branch banking powers within the trade areas surrounding their places of operation in all states regardless of state laws dealing with branch banking. His theory is that this would strengthen the national banks, would extend the benefits and strength of city banking organizations to the country districts, and allow national banks to adapt themselves to modern regional economic developments and requirements. He claims that these requirements are evidenced in the spread of group and chain banking in some sections of the country through what might be designated as economic trade areas, comprising sometimes several states, and in one instance largely along Federal reserve district lines.

Group and Chain Bank Systems

States	Number of Groups	Number of Banks	Resources
Alabama	5	30	$50,450,000
Arizona	1	5	20,870,000
Arkansas	4	82	81,625,000
California	10	53	1,438,360,000
Colorado	2	12	37,120,000
Connecticut	1	7	39,970,000
Delaware	1	3	10,260,000
District of Columbia	.	..	....
Florida	4	22	108,710,000
Georgia	5	22	228,090,000
Idaho	3	23	28,870,000
Illinois	11	89	1,417,260,000
Indiana	2	10	38,830,000
Iowa	10	70	76,300,000
Kansas	19	92	78,310,000
Kentucky	3	16	181,300,000
Louisiana	2	9	41,460,000
Maine	1	10	68,040,000
Maryland	..	..	....
Massachusetts	5	43	1,248,450,000
Michigan	12	110	1,351,150,000
Minnesota	23	451	1,088,490,000
Mississippi	1	4	7,010,000
Missouri	6	21	141,180,000
Montana	1	8	5,100,000
Nebraska	8	51	30,170,000
Nevada	2	12	29,490,000
New Hampshire	..	..	....
New Jersey	13	48	376,850,000
New Mexico	1	5	2,730,000
New York	16	96	4,565,170,000
North Carolina	..	..	....
North Dakota	7	57	29,025,000
Ohio	11	4	79,920,000
Oklahoma	9	58	184,630,000
Oregon	6	33	104,660,000
Pennsylvania	13	47	894,860,000
Rhode Island	1	3	174,420,000
South Carolina	2	7	64,920,000
South Dakota	4	24	13,070,000
Tennessee	8	42	225,230,000
Texas	17	81	186,430,000
Utah	4	42	90,410,000
Vermont	..	..	....
Virginia	..	..	....
Washington	9	59	136,760,000
West Virginia	..	..	....
Wisconsin	5	39	286,190,000
Wyoming	5	22	22,960,000
Totals	269	1.922	$15,285,100,000

Trade Areas Undefined

THE comptroller however has not yet made specific definition of "trade-areas," proposing that this subject should be worked out in detail by a Congressional committee if the general principle of "trade-area" branch banking were established. The comptroller expressed the opinion at the hearings that trade-area branch banking, if legalized would supersede group bank systems which however if they should continue to exist he would bring under some measure of Federal supervision where they comprise members of the national bank or Federal reserve systems. The comptroller presented his views at length and submitted to prolonged questioning by the members of the committee.

Governor Young of the Federal Reserve Board has also appeared and seemed to be in general agreement with the Comptroller. Governor Young while not defining trade areas as coinciding with Federal reserve demarcations suggested that the twelve Federal reserve districts and their twenty-five sub-districts surrounding branch Federal reserve banks outline thirty-seven trade areas with some overlapping. As to multiple banking developments he said that at the end of 1929 there were in operation 24,645 banks and 3547 branches, a total of 28,192 banking offices; that in this total 6353 units were either branches or members of groups or both leaving 21,839 banking institutions that might be definitely termed independent unit banks, that is, banks having no branches and in no way connected with other banks through group affiliations.

Against Nation-Wide Branches

HE also said that all the banks had total loans and investments of $58,500,000,000, of which the group and branch systems held $30,000,000,000 or more than half. While he expressed himself as in favor of "trade-area" branch banking he was opposed to nation-wide branch banking at present. However, he said that ultimately if bankers became trained and experienced in the larger technique of "trade-area" banking he thought it would go on and extend and in time would evolve into nation-wide branch banking under control of relatively few banks but he did not believe this would mean monoply or lack of competition. He favored branch banking over group banking which he said, however, represented an economic development along "trade-area" lines and would continue to spread unless checked. He did not advocate a check unless something else were substituted and he thought "trade-area" branch banking would serve this purpose.

The McFadden committee has also called a number of operating heads of some of the great group systems. These men declared that they found under certain conditions definite operating and

(*Continued on page* 1184)

York Vaults

One of the World's Greatest Banks

WHEN the Bank of Manhattan Trust Company was organized, there was only one other bank in New York City. The story of how it secured its charter is one of the most interesting chapters in American financial history. Today this bank is one of worldwide importance and York is proud that its product protects the funds of this great institution.

The vault equipment installed by us for the Bank of Manhattan Trust Company comprises one of the most complete installations in the world.

Each of the five vaults are protected by a specially designed steel lining, in which is incorporated "Infusite," York's torch-resisting metal, together with other special materials capable of resisting any method of attack. All the vault walls contain a special type of concrete reinforcement. The safe deposit vault is protected with a vault entrance of the circular type, 30 inches in net solid thickness, and ventilation is facilitated through special emergency doors of the same thickness.

The security vaults and the trust vaults are protected by rectangular entrances each 30 inches in net solid thickness, and are equipped with emergency entrances of the same thickness.

The vaults of this bank are an age defying testimonial to modern safety and to York excellence.

YORK SAFE and LOCK COMPANY

York, Pennsylvania

One of the world's tallest skyscrapers, the home of the Bank of Manhattan Trust Company. Below is shown one of the York Vaults installed for this bank.

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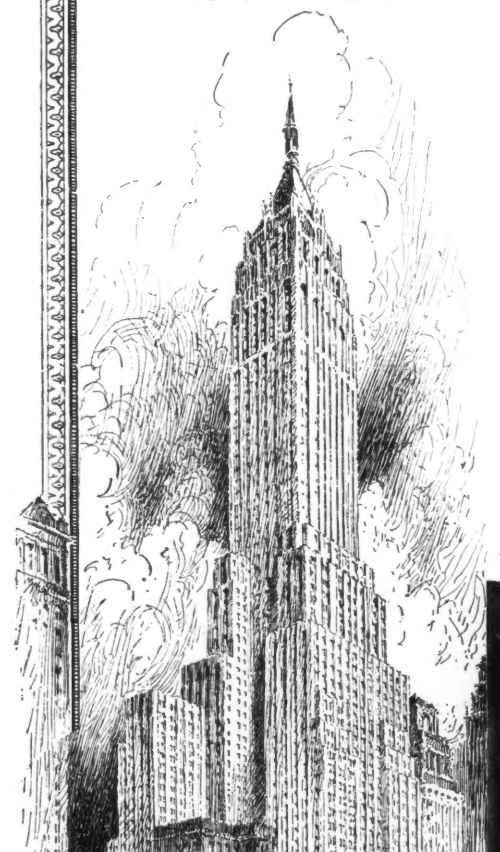
BOSTON	MONTREAL, CANADA	CHICAGO
PHILADELPHIA	HONOLULU, HAWAII	CLEVELAND
SEATTLE	PARIS, FRANCE	WASHINGTON
ST. LOUIS	HAVANA, CUBA	LOS ANGELES
SAN FRANCISCO	TOKYO, JAPAN	PITTSBURGH




How Oregon Bankers and Farmers Help Each Other

Joined Hands in Developing a State Agricultural Program, Based on Survey Showing Maladjustments Between Production and Community Needs. Extensive and Comprehensive Agricultural Programs Adopted. Keeps Farms Abreast of Changes.

OREGON'S unusual record of banker-farmer teamwork in the development of the state's agricultural wealth was described in a paper read before the Agricultural Commission at a meeting of the Executive Council of the American Bankers Association in Old Point Comfort, by Paul V. Maris, director of extension service, Oregon State Agricultural College.

"As the Westbound trans-continental train approaches the Great Salt Lake in the heart of the Rocky Mountains," said Mr. Maris, "a foreground of waste and desolation greet the eye. There is no vegetation on the face of the earth nor discovered wealth beneath its surface. No basis exists for the profitable pursuits of mankind. Commerce and industry languish save for the traffic founded upon love for the matchless beauty and charm of nature. Perfect balance prevails; naught is produced. There is naught to consume.

The Opposite Condition

"LET us turn from this condition of balance to consideration of a productive commonwealth far removed from the great consuming centers. The wide opportunities for diversification add to the difficulty of developing a well balanced agriculture. Oregon produces a surplus of the staple commodities—wheat, beef, wool, eggs and other products—for which there is an established market. The state also produces a large surplus of certain specialties in the fruit and vegetable line which occupy a minor but important place in the nation's food supply.

"About seven years ago the extension service of the State Agricultural College sought to face the problem suggested by this situation. It has much in common with the larger problem with which we are now struggling in a national way. The Federal Farm Board is placing great emphasis upon the fact that orderly production must precede orderly marketing. For some time to come we will be seeking practical means of achieving this condition of orderly production.

"We sought to focus public attention upon the problem by proclaiming rather widely and persistently the fact Oregon needed a comprehensive state-wide program for agriculture based upon a thorough analysis of both production and marketing possibilities.

"That declaration was followed by an attempt to assemble information and statistics of the most reliable character bearing upon the history and development of our agriculture, the adaptability of our soils and climate to the production of various cereals, fruits, vegetables, livestock and livestock products, the quantity of these commodities being produced, the comparative cost of production and comparative quality in Oregon and in competing regions, our domestic consumption requirement, quantities exported, distance to markets and shipping costs. In short, we attempted such an analysis of our $800,000,000 agricultural industry as a manufacturing concern of equal magnitude would be expected to make as a basis for a production and sales policy.

Bankers Join with Farmers

"IN January, 1924, a state agricultural economic conference was held. More than five hundred of the state's leading farmers, bankers, and others interested in farming responded to the invitation, considered the facts previously assembled and took part in the formulation of a state agricultural program. Definite recommendations were made pertaining to dairying, farm crops, horticulture, livestock, poultry, beekeeping, land settlement and marketing. These recommendations were printed in a seventy-eight page bulletin entitled 'Report of Oregon Agricultural Economic Conference.' The following are a few typical recommendations. Time and space forbid extensive quotations or the inclusion of any supporting information:

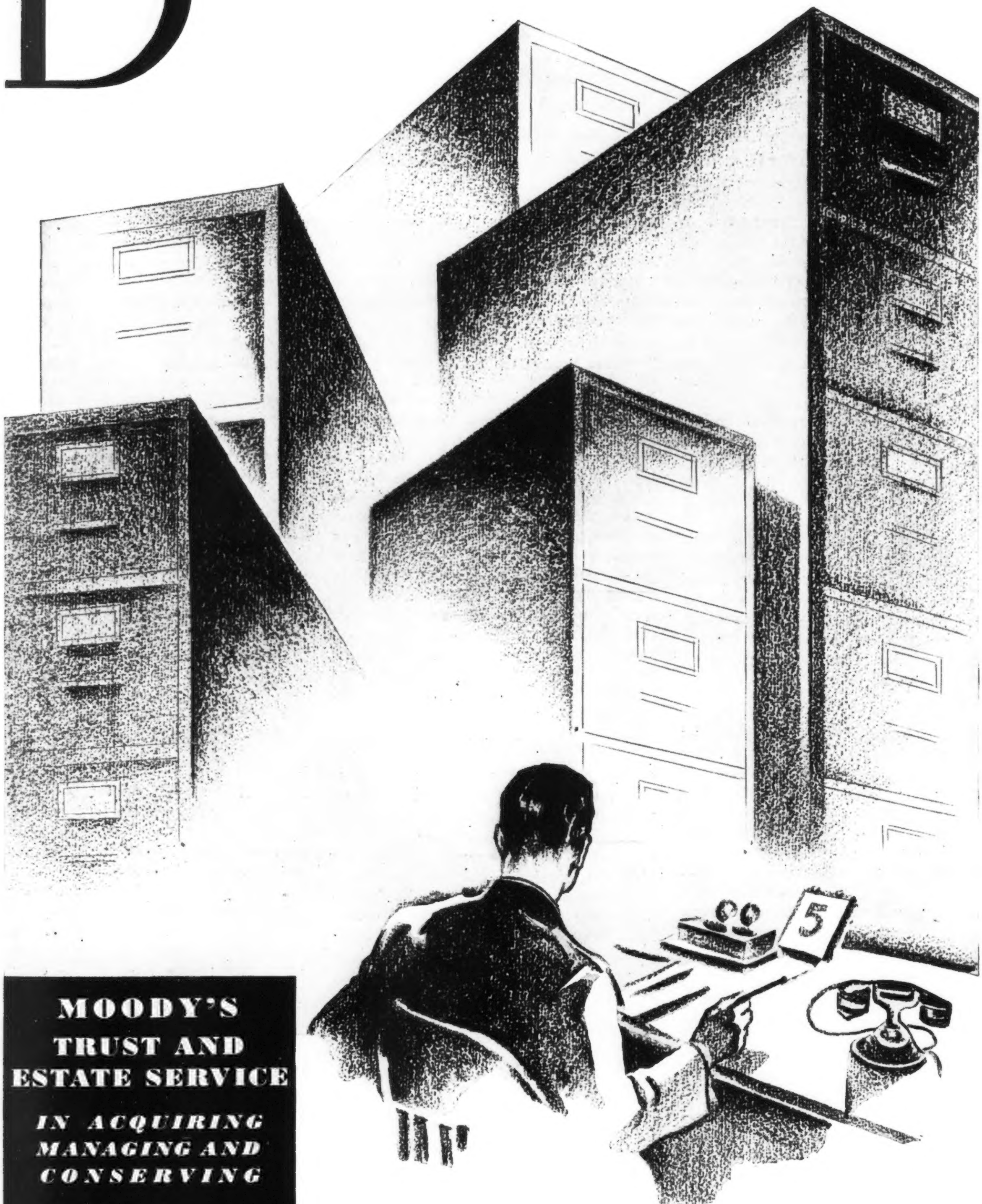
"Make no reduction in Oregon winter wheat acreage. Reduce spring wheat acreage in counties of low production and replace it to some extent with approved varieties of barley. Replace oats in some of the lower yielding areas of western Oregon with barley, clover, vetch, and other more profitable crops. Grow more red alsike and white clover seed on western Oregon and irrigated farm lands. Produce more grass seed in western Oregon. Increase production of hairy vetch seed, with considerable caution. Do not increase potato acreage. Extend seed potato production, and develop market in southeastern states reached by water transportation. The present apple acreage is sufficient to meet market needs. Moderate increase in winter varieties of pears is advisable. Moderate plantings of walnuts and filberts are advisable for some time to come in Oregon. Increase plantings of Royal Anne cherries where present acreage is insufficient to meet local cannery or fresh fruit demand. Increase plantings of Bing and Lambert cherries east of the Cascades where the demand for fresh fruit is greater than supply. The prune acreage should not be increased. Maintain the present number of beef cattle and build for permanence and stability. Market steers at two years of age. Increase the number of range sheep slightly, only up to the normal capacity of the ranges. Increase farm flocks on larger farms of western Oregon and in irrigated sections. Do not expand the pig industry faster than feed production. Goats are strongly recommended on all brushy areas. Oregon is justified in promoting poultry keeping as a specialized industry. Butter manufacturers should receive first consideration in improving dairy conditions. Expansion of cheese manufacture should be encouraged only where there is an effective organization to advertise and stabilize the product."

Organized By Counties

"WHILE the state economic conference was yet in session representatives of many agencies participating approved a plan submitted by the extension service for conducting a series of county economic conferences, for the purpose of developing county programs in general harmony with the state program. Such conferences have been held in twenty of Oregon's thirty-

(*Continued on page* 1182)

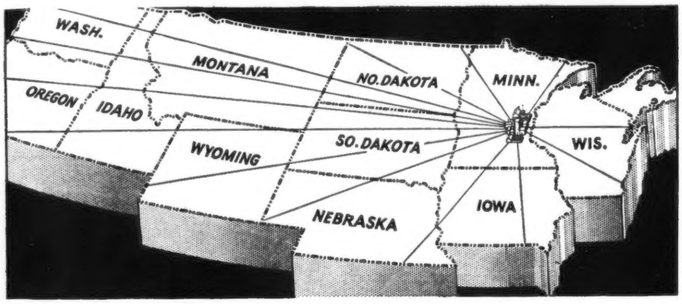
Does a set of files bar



MOODY'S
TRUST AND
ESTATE SERVICE
*IN ACQUIRING
MANAGING AND
CONSERVING*
TRUSTS AND
ESTATES

FACILITIES

. . . TO MEET FINANCIAL REQUIREMENTS OF INDUSTRIES OPERATING IN THE NORTHWEST



Territory Served by Northwest Bancorporation

The Northwest Bancorporation was conceived and organized to give a complete and unified banking service throughout the entire Middle Northwest. 109 leading banks and trust companies are affiliated with combined resources over $483,000,000.

This great group of banks and trust companies located in key cities throughout the Middle Northwest now have the facilities to supply a complete banking service equal to all requirements of business executives operating in this area. When you transact business with one of the affiliated banks, you draw upon the experience, resources and facilities of the entire group.

A GREAT BANKING INSTITUTION

If you are interested in the facilities of this banking institution, write the Northwest Bancorporation, Minneapolis, Minnesota, for our booklet "Blazing a New Financial Trail."

NORTHWEST BANCORPORATION

Combined Resources Over $483,000,000
MINNEAPOLIS, MINNESOTA
BancNorthwest Company—Investment Securities Division

Research Eliminates Guesswork from Management

By JOHN G. LONSDALE

President, American Bankers Association and President, Mercantile-Commerce Bank and Trust Co., St. Louis.

Fact-Finding in Business and Finance Is the Equivalent of the Microscope in Science. It Reveals the Causes of Success and Failure. Rising Momentum of Economic Progress, Constant Changes and New Conditions Make Old Methods Dangerous.

BANKING in the past few months has been put to a severe test. Gazing ahead toward the distant horizon, I can see the storm clouds clearing and when the skies once more are fair, we may feel assured that banking will emerge in a stronger condition than ever. There is no question that general business conditions are improving. The speed with which our prosperity returns, however, is dependent in no small measure upon sufficient rains and favorable weather, which we hope will be ordered by a kind Providence.

It seems that bankers and business men make an unpardonable error in not adopting more universally the tactics of the scientist. When the scientist wishes to fathom the mysteries of the universe, or resolve things into their component parts, he calls to his assistance the magnifying power of the microscope. There before him, like an open book, lie the secrets which unaided eyes cannot observe.

Higher Speed

THE pace of America's development during the past half century, says President Lonsdale, will in no way compare with the next fifty years. He believes that corporations in order to prosper or even survive, in this era of Gargantuan mergers, need executives whose only function is to stand on the sidelines and "note fumbles and errors." He sees deep-rooted changes in social and economic life which are raising unusual problems for country bankers.

The Goal of Science

THE uncanny power of the microscope's all-seeing eye has revealed countless secrets for the material and intellectual progress of humanity. It has enabled us to study the processes of growing cells in plant and animal life, trace the causes of disease and successfully combat the ills of mankind; it has aided the engineer in his search for stronger and more serviceable materials, giving us taller, lighter and more sanitary structures, and better highways; it has disclosed the defects in steel rails and brought us an era of safer railway travel; it has added to the food supply of the nation; in fact, it has affected favorably nearly every activity of the human race, whether it apply to production, distribution or consumption, in time of peace or in time of war.

In the business and banking world, economic research and analysis serve as the microscope through which we are enabled to see basic factors more clearly and thus determine the causes of success and failure. Only recently have we begun to realize the full value of research and analysis and apply them in such a way as to eliminate the guesswork that was characteristic of industry a few years ago. Eliminate the guess and reach success, might well be a motto for all of us.

Business has demonstrated the fact that alertness pays huge dividends; that to sit down with folded hands and wait for customers without going after them is a good way to let a rival get all the trade. Too often the businessman who calmly waits for his ship to come in, finds it to be a receivership.

Not so long ago the successful manufacturer or distributor thought he had a thorough knowledge of his business if he took a routine inventory once or twice a year. Now the same individual finds that if he is to remain in the race, he must know virtually every hour of the twenty-four how his production or his sales are progressing. To his desk each morning come reports which give a quick, clear picture of every department—in effect, his business passes in review like a battalion of soldiers, every day of the year. Any defects that arise must be observed at once and remedied quickly.

New Kind of Executive

A FEW years back the all-important problem of industry was production. Now that the art of production has been mastered, the new challenge to twentieth century thinking is the development of added markets for our goods.

The thought has been indelibly impressed upon my mind that large corporations need on their staffs someone to act as an official observer—someone to stand on the sidelines, as it were, and watch the game as it is being played. To such an observer comes the opportunity to note fumbles and errors that go unnoticed by those who are players in the game. Ordinarily, the chief functions of an observer should fall to the president of an institution. If he is unable to act in such capacity, this duty should be delegated to someone else.

Some seem to think that the day of the individual in business has passed. But they are wrong. While the individual may not attract such outstanding attention as he did in the days of old when institutions were conducted on a smaller scale, he nevertheless is to be found in any large corporation, dominating the situation, giving orders here, cooperating there and shouldering the responsibility of keeping a large group of lieutenants, captains and privates working in unison and moving forward under the banner of progress. And all of these are held accountable to the public because the public has entered into a partnership agreement with the corporation through purchase of stock.

Welfare of Workers

EVEN in the gigantic mergers that have taken place within the last two years there remains more than ever the necessity for a leader, an aggressive personality, whose duty it is to see that basic principles are not forgotten, that the rights and privileges of the individual workers and the customers they serve are as well provided for as in the smaller business units. It is gratifying to note that our corporations, including banks, are giving more and more concern to the welfare of their workers. Numerous benefit organizations have been formed; opportunities offered for advancement of education and position; hospital service established; and insurance and retirement pensions provided. We only recently installed a comprehensive insurance and retirement plan at our own institution.

This general humanitarian movement in realty is the outgrowth of analysis, which has disclosed the need of improving the well-being of our co-workers, realizing at the same time that our institutions will benefit. By focusing the illuminating light of analysis on all our business, we can soon determine whether we are losing or gaining ground.

Perhaps we all remember the story of Ichabod Crane and the headless horseman, a classic of our schoolboy days. There was the dark form by the side of the road—thundering hoofs on the Sleepy Hollow highway—and Ichabod fleeing in confused terror before this terrible monster. If Ichabod had only known that his hobgoblin was an inventive rival disguised with a pumpkin head, he would have had a good laugh and gone on with the business of vanquishing his competitor. What Ichabod really needed was a modern flashlight. Then he would have discovered the trickery at once. Many bankers need the flashlight or microscope of analysis to uncover the hobgoblins in their business and then they might sit back and laugh at their rivals who hesitate to investigate and learn the truth.

The Uses of Adversity

AT this time, when business and banking are making strenuous efforts to have a clear vision ahead, it is especially important that the power of research and analysis be employed to their fullest extent. When these twin brothers of good management have been pressed into service in all fields, I am confident we shall see a further lessening of periods of stress. However, I believe business in general has learned the valuable lesson that any prosperity that is not leavened with a little adversity would not seem basically safe or sound.

Fortunately for American banking, the application of the microscope to vital problems is not left entirely to the individual, for there is a powerful research laboratory working constantly in his interest. I refer to the American Bankers Association, which is daily submitting every phase and every department of banking to searching scrutiny and study. The findings of these investigations are made available to the 20,000 members of the organization for their guidance. It is a fine tribute to the spirit of cooperation among bankers that we are able to carry on this work. Bankers from one end of the country to the other are constantly giving freely and unselfishly of their skill and experience, in cooperation with our headquarters staff, so that we may produce the truly great results that are being accomplished.

Clearinghouse for Facts

IF I had the time, it would please me to describe in detail the interesting and valuable contributions that our various divisions, commissions and committees are making toward the betterment of banking conditions and the welfare of the nation at large. Statistical information on national and state banks, savings institutions, trust companies and trust departments, clearinghouse groups and general banking is prepared after exhaustive inquiry and distributed for the use of all.

Investigations have resulted in the passage of beneficial legislation, revision of banking practices and innumerable changes for a stronger and more efficient banking structure. In the savings field, for instance, it was revealed that there were fifty-two ways of computing interest. By careful selection, these were reduced to four approved methods.

In the battle that is being waged for justice and equality in taxation, our Association always has stood at the front where the fighting is heaviest. Realizing the right of taxation is a sacred one and comes next to an individual's liberties, we have been unrelenting in our efforts to equalize excessive burdens and place levies on a fair and impartial basis. Abuse of the right of taxation, if carried too far, amounts to confiscation and interferes with progress through prevention of needed financing and necessary building of surplus for protection.

In addition to safeguarding our taxation rights, our Association has shown us the best investment policies, instructed us in the analysis of accounts, helped us to install various service charges, pointed out the way to better management, and made surveys of group, chain and branch banking. It has gone even beyond this and set up an educational system in our affiliated American Institute of Banking, where 67,000 ambitious young men and women are now availing themselves of the opportunity to advance in the banking field. In this way we benefit through having more efficient workers.

These activities are continually going forward that American banking may continue to progress. Banks singly or in small groups could never have brought about such reforms as we have obtained.

Thinkers Are Few

THE fact that our problems are thus being placed daily under the microscope by a large association does not relieve the individual banker of his responsibilities. He must apply the formulas and principles of these findings to his own institution. This requires a great deal of study and thought. From my own observation, you can lead a man to facts but you cannot make him think —he has to do that for himself.

Although the world is supposed to be run by thinkers, it is a lamentable fact that only a small percentage of the people really think. Thinking begets ideas and ideas supply that intangible power that lifts the chore boy to president, that indefinable something which constitutes the primal element of success for men and nations. We should not let our minds become so confused that we are made oblivious to the greater themes that lie just outside the orbit of the average man's superficial thinking. If you have banking questions to decide, seclude yourself in a quiet corner, where there is no distraction, and concentrate. Too many of us, in our hurly-burly existence, never seem to find the opportunity to break away from the crowd or from some impending task. But the thinking habit can be acquired, just like any other habit, if we set ourselves to it.

With banking conditions of today in a state of great uncertainty, there never was a time when analysis and deep thinking were more needed in both country and city. The smaller banker, upon whom have fallen many difficult burdens, is placed at a distinct disadvantage in the making of analyses, and city correspondent banks and bankers' associations should do all in their power to assist him.

Trend to Cities

TO the smaller banker I extend full sympathy and praise, for he has been the mainstay of agriculture at a time when it has suffered a serious national decline. It has been his responsibility, too, to bear many of the tribulations that follow in the wake of innovations affecting the serenity of community life.

Although various local conditions, such as drouths, floods and crop failures, have brought many troubles to country bankers, we must look beyond these seasonal disturbances for the underlying cause of difficulties. Perhaps the chief explana-

(*Continued on page* 1184)

Safer Brakes for America's Credit Machinery

By ROY A. YOUNG
Governor of the Federal Reserve Board

Public Service and Community Responsibility Stressed as Important Adjuncts to Banking Profits. All Suffer Loss of Business in Collapse Which Follows Period of Uncontrolled Speculation. Cooperation with Reserve System Called Essential.

EVENTS of last autumn are still close enough to be fresh in our minds and yet they are now distant enough to make it possible to appraise them and to draw lessons from them for our future guidance. During the market break and the disorganized conditions that prevailed in the last week of October and the first half of November, the key commercial banks and the Federal Reserve System acted in a manner of which we have just cause to be proud.

An unprecedented drop in security prices and a gigantic withdrawal of funds from the market by out-of-town and non-banking lenders occurred, and the member banks stepped in courageously and promptly to take over the burden occasioned by these withdrawals, while the Federal Reserve System stood by the banks, both by discounting paper freely and by placing large sums in the market through the purchase of securities. A panic and a collapse of our credit machinery was averted.

Banks Showed Foresight

NOT only did our banking system rise to the occasion when panic threatened, but the key member banks showed foresight in preparing for this possible development by putting their house in order many months in advance through using their influence to curb the growth in the volume of credit used in the security market. Brokers' loans of New York City banks for their own account in the middle of last October showed little change from the levels of the three preceding years, and their ability to take care of the situation was in no small measure due to the fact that they had refrained from participation in the enormous growth of security loans that occurred in 1928 and 1929, notwithstanding the attractiveness of the returns and the essential safety of the loans. The Federal Reserve System, for its part, pursued for two years a policy of firm money, expressed in higher rates, in sales in the open market, and in exerting its influence against improper uses of Federal Reserve facilities.

Voluntary Control

GOVERNOR ROY A. YOUNG of the Federal Reserve Board states here that "in other countries where banking development has been longer and banking concentration has proceeded further, certain methods of control have been developed."

Mr. Young emphasized that he was not recommending the degree of control over borrowing that exists in England, for instance, but urging the need for individual responsibility.

We can, therefore, congratulate ourselves on at least a part of our activity during the period preceding the market break, during the break itself, and the subsequent readjustment. Yet there is food for serious thought in the fact that, under our excellent banking system and without unexcelled financial strength, we nevertheless came to the brink of a collapse, had to resort to heroic action to prevent a panic, and were not able to avert a period of violent disorganization followed by severe liquidation and what appears to be a business depression.

Is this unavoidable? Is it necessary for this country to go through periods of reckless exuberance, accompanied by enormous credit expansion, by fantastic levels of money rates that profoundly disturb the financial and business structure not only here but all over the world? And to have these periods culminate in abrupt reversals, violent liquidation, and a feeling of discouragement and depression? If all this is inevitable, it is very regrettable, for the cost of these excesses is borne throughout the land, with echoes across the ocean, in languishing enterprise, in unemployment, and in general depression.

The World View

WE are no longer an isolated young country, with unlimited resources, but with no important influence on world affairs. On the contrary, we are in the very center of the world picture and our prosperity or depression is a matter of grave concern throughout the world. We have two-fifths of the world's stock of monetary gold, we have financial claims on the rest of the world larger than any nation ever had, and we have a market for equities in enterprises, which for breadth, volume of operations, and violence of movement has no equal in the world.

Bankers cannot but feel the heavy responsibility which this preeminence places on their shoulders. I am a banker by profession. For years I was a commercial banker, for a decade I was a reserve banker in an agricultural community, and now for two years and a half I have been connected with the central supervisory and coordinating body of our banking system. In short, I am no outsider. I should not invite attention to matters that I myself, as a banker, would not care to consider, nor suggest any course of action that I myself, were I a commercial banker, would not care to follow.

One weakness in our banking structure arises paradoxically enough from its very strength. Because we are strong and have great resources, because we

(*Continued on page* 1180)


Dedicated to coming generations
Telephone companies have to be far-sighted. Their completely equipped buildings must serve coming generations, and be a source of pride to the community. So the Syracuse headquarters building of the New York Telephone Company, designed by Voorhees, Gmelin and Walker, Architects, of New York City, was built of reinforced concrete throughout. As pictured above, the beautiful exterior is of cast stone in which the richness of hand-tooling is combined with the speed and economy of reproduction from models. This practical and fire-safe structure will endure long past the time when its capacity and facilities are adequate for the growing city it serves.
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Preparing for the Account Analysis

By T. J. BARCLAY
First National Bank, Mason City, Iowa

Many Confusing Perplexities Are Encountered in the Beginning. Standard Cost Figures Are Held to Be Impossible if Accuracy Is to Be Obtained. Each Bank Must Establish Its Own. But Regardless of Size the Determining Factors Are the Same.

IN spite of the abundance of material available on checking account analysis, putting such an analysis into operation presents a great many real, confusing difficulties. Nearly everyone contemplating an analysis is familiar with the standard forms, but the basic cost figures, the figures that make the operation worth while or entirely worthless are the cause of much trouble and uncertainty. The tendency is to start the analysis with preparations half made.

Before beginning an analysis of checking accounts, there are several points in the way of cost accounting that must be determined—cost of handling the various classes of checks, cost of handling deposit slips, loaning cost, and cost of handling currency. Other preliminary points to be decided upon are the type of float record to be kept and the rate of deduction for reserve. With these items determined, the actual account analysis is a simple procedure, a matter of assembling the required data accurately and with a minimum of disturbance to the other departments of the bank.

"Standard Costs" Misleading

THERE has been some demand for standard cost-finding forms and even some for standard cost figures. The former can possibly be developed; the latter, certainly, are impossible. It must be kept in mind that the cost figures are just that—not a charge against the customer, but, rather, a charge against the items in the way of cost accounting, and must be accurate or there is no reason for their existence.

Undoubtedly there are many banks with some form of account analysis employing the cost figures of another bank or of a group of banks. While the accurate determination of cost figures may at first seem difficult, it cannot be too strongly urged that each bank obtain its own figures.

Furthermore, new cost analysis should be made yearly, or whenever substantial changes are made in operating methods. Aside from providing more accurate account analysis, the individual bank's findings will, when compared with those of other banks, often disclose abnormal conditions that can be remedied with a little attention.

Finding the Per-Item Cost

REGARDLESS of the size of the bank or the system used, the factors entering into an arrival at cost figures are the same. Briefly, a knowledge of departmental expense is needed, an item count, and a fairly accurate estimate of the percentage of the time each department (and individual) devotes to each class of item.

The item count and the departmental expense figures are fairly easy to accumulate, but the time element requires more attention. In small or average banks accuracy requires that the time count be made for each individual. Of course if every man in a given department did exactly the same kind of work the little irregularities would average out, and the total departmental time and volume figures would suffice. Such is not the case, however; we find men whose special duties require consideration. On the sheets, or by volume, certain items may appear to have received so many hours, when in reality, due to special attention required, the time is out of proportion to the volume.

"Cost in salary" and "other cost" are found separately, because while one hour of equipment or overhead time is definite, one hour's work by Jones may have no similarity in cost to one hour's work by Smith. At first it may seem that the cost will average the same whether or not salary cost and other cost are found separately. Over the entire department it does, and all classes of items, but there is a decided effect on the individual classes of items according to the method used.

After the item count, apportionment of time values, and arrival at departmental expense figures, the recapitulation would be done in some such manner as shown in Fig. 1. The general overhead or institutional expense is there divided after the manner generally accepted in budgeting; that is, it is apportioned to the departments at the same ratio the individual department's expense bears to the total of all strictly departmental expenses. In the case of a man who divides his time between two or more departments, his salary is divided in the same proportion as his time, but other-

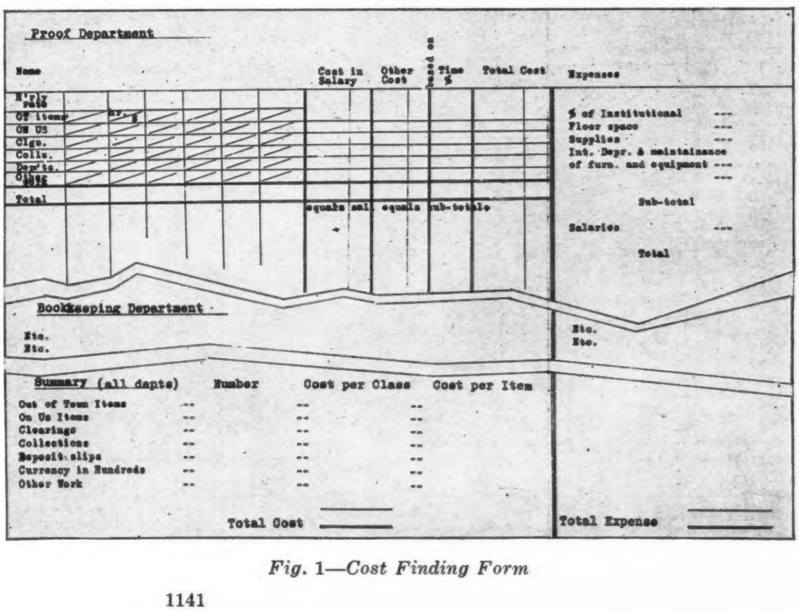

Fig. 1—Cost Finding Form

MONTH	JANUARY	FEBRUARY
Average Balance		
Less Outstanding Items		
Actual Balance		
Less Reserve		
Loanable Balance		
COST		
General Overhead		
Interest on Average Balance		
Exchange Cost		
Handling Cost O. T. Items @ c		
" " Clearings @ c		
" City Collections @ c		
" O. T. Collections @ c		
" Cost Grain Drfts @ c		
" " Checks on Us @ c		
" " Deposits @ c		
" " Ret'n Items @ c		
" Currency hund @ ¢		
Total Cost of Account		
Prevailing Rate of Interest		
GAIN		
Loanable Balance at Prevailing Rate		
Exchange Recovered		
Interest on Outstanding Items		
In Excess of Balances		
Total Gain on Account		
Less Total Cost of Account		
Profit or Loss		

Fig. 4—Monthly Analysis Summary

wise no distinctive treatment is required.

Fig. 2 is a form to facilitate the individual time count. This is not the item count, which is made for the bank as a whole and from representative days covering a much longer period. The approximate number of items may be used here to help apportion the time, the proportion being the only important factor, as the salary basis is time. Thus it is seen that there is no effort to determine the various cost rates within each department as they would undoubtedly vary from department to department. The purpose, rather, is to find the cost to each department of handling each class of item regardless of number; then assemble these cost figures from the various departments and divide by the number of items of each class handled by the bank as a whole.

With the item cost ascertained, the greater part of the preparation for analysis is accomplished.

Reserve Deduction

DEDUCTION of reserve from net balance to obtain "loanable balance" presents a problem that is susceptible of widely divergent solutions.

Shall the deduction be purely the legal reserve requirements, or shall it be in proportion to the actual reserve maintained? It might be said that it is not the depositor's fault if the bank fails to loan out all of his net balance above the legal reserve. On the other hand, the additional reserve which (in non-reserve cities) often brings the total reserve up to three times the legal, is unquestionably a safeguard of some value to the depositor.

Perhaps the most equable solution is to divide the cost of maintaining the surplus reserve between depositor and stockholder, a solution which will often bring the deduction up to 15 to 20 per cent of the net balance.

The closely related subject, "return on loanable balance," might well be discussed here. Many banks eliminate the necessity of arriving at "loanable balance" by dividing the net balance in proportion to the manner in which it is invested. Thus 70 per cent of such funds might be earning 6 per cent as loans, while 20 per cent, as secondary reserve, earns two and one half per cent, and 10 per cent, as cash, earns nothing, This method is obviously just another method of deducting reserve, and slightly complicates the computing of earnings. However, it indicates something that many banks using the "loanable balance" method are overlooking—the fact that some income must be acknowledged as received from reserve. This can be compensated for by either reducing the proportion of reserve deduction or by increasing the rate used in computing income on loanable balance.

The cost of loaning the loanable balance is easily determined by dividing the total loans by the total of expenses chargeable to the loan department. Usually this figure is thirty to fifty cents per thousand.

Month Ending 24,

Date	Ded	Ded	Ded	Ded		Total Ded	Balance	Date
25								25
26								26
27								27
28								28
29								29
30								30
31								31
1								1
2								2
3								3
4								4
5								5
6								6
7								7
8								8
9								9
10								10
11								11
12								12
13								13
14								14
15								15
16								16
17								17
18								18
19								19
20								20
21								21
22								22
23								23
24								24

FOUR-COLUMN DEDUCTION SHEET

Total Bal.	
Total Ded.	
Net Bal.	
Int. on Bal.	
Int. on O. D.	
Interest Paid	

Fig. 3—A Float Sheet

Float Deduction

THE type of float record kept is determined largely by the data required and, to a certain extent, by the system of interior proof in use.

There are two general methods of keeping a float record, each with variations. One method supplies only the average float figures, while the other, in addition to indicating the average float figures, shows the actual amount out-

(Continued on page 1176)

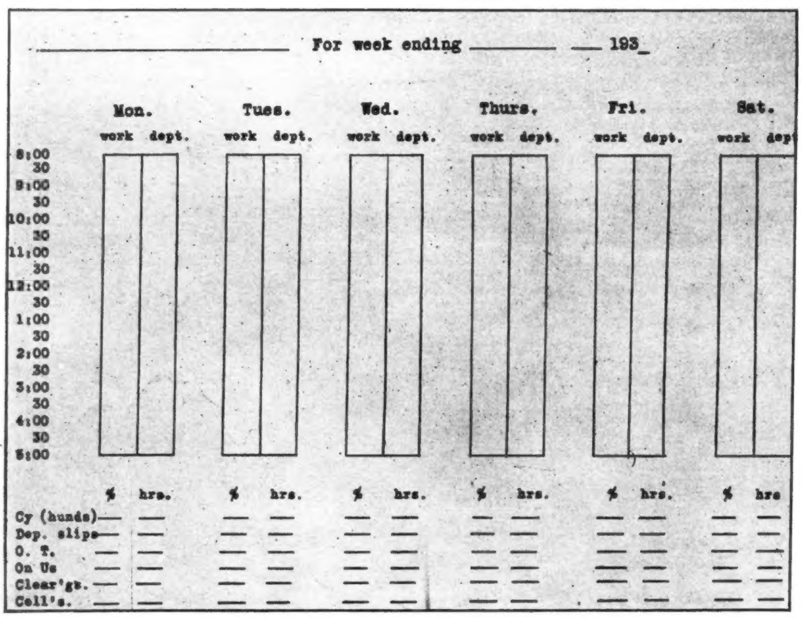

Fig. 2—Time Apportionment Form

Rule of Thumb Methods have no place

. . . in determining the proportion of a bank's resources that should be held in loans and discounts, in cash, in bonds, in commercial paper or any other valid asset

These ratios, vital to the bank's profitable operation and to the quality of service which it gives to its community, must depend upon the circumstances of the individual bank. They must be decided according to such variable factors as local loan and credit conditions and the character and average duration of the bank's deposits.

Whether large or small in ratio to resources, the bank's secondary reserve of bonds should be built with a view to sound security, broad diversification and adequate yield, rather than to capital profits. It should likewise include a liquid revolving fund of bonds of early maturity, sufficient in size to take care of emergency demands that may not be provided for by the primary reserve of cash and Treasury Certificates or other quick paper.

The services of an experienced investment house can be of real value to the banker both in forming and in carrying out a dependable, orderly investment plan for the bank's secondary reserves. The accumulated knowledge of banking requirements gained by such an investment house in serving thousands of institutions brings to bear on the individual problem a wealth of practical information. This will go far to assure proper selection of securities and a satisfactory relation between the secondary reserve and the bank's other resources.

Our broad experience in preparing detailed bond reserve accounts is available to every banker. Write today to our nearest office for the useful folder, *Sound Investment Practice for the Commercial Bank,* which will be mailed you promptly.

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B O N D S T O F I T T H E I N V E S T O R

Investment Trusts Buy Bank Shares Sparingly

By WALTER N. DURST

Low Average Yield, Limited Marketability and Double Liability Features of Bank Securities Render Them Less Popular with Investment Trusts Than Industrial Shares. Analysis Shows that Bank Stocks Are Only 6.74 Per Cent of Trust Holdings.

A SURVEY of bank stock holdings by investment trusts reveals that such holdings are relatively small in amount. Seventy-two investment trusts or investment companies with total resources of about $2,041,600,000 have bank stocks in their portfolios totalling about $137,529,000 in value or average holdings of 6.74 per cent. If eighteen investment companies reporting no holdings of bank stocks are eliminated, the average holdings of the remaining fifty-four companies with total resources of about $1,558,800,000 would be 8.8 per cent.

One-fourth of the investment companies do not have bank stocks in their portfolios. In a number of other cases, the holdings are very small. Of the fifty-four companies holding bank stocks, six are specialized investment trusts and in such cases, the percentages of bank stocks are higher, ranging from 20 per cent of the total to as high as 93.8 per cent.

Low on Popularity List

THIS conclusion that bank stocks are not over-popular with investment companies may also be based on the findings of two other surveys of investment companies. In one of these surveys of the list of 109 most popular common stocks in the portfolios of seventy-seven investment trusts, six were bank stocks.

In contrast to the most popular stock of this survey which occurred forty-nine times out of a possible seventy-seven, the two most popular bank stocks were thirty-third and thirty-sixth on the list, these two issues each occurring nineteen times in the seventy-seven portfolios. The other four bank stocks favored by investment managers occurred sixteen, thirteen, twelve and ten times respectively.

In another survey of the reports of fifty-eight leading companies, the result was that eighteen companies held one of the two most popular bank stocks according to the previous survey. Thirteen companies held the other most popular bank stock, while one bank stock was held by twelve companies, another by ten, two others by nine and one other by five.

These two surveys as to the popularity of bank stocks and the survey presented in this article can only result in the conclusion that, on the average, holdings of bank stocks by general management investment trusts are not of great importance. In specialized trusts or general management companies, where the total holdings of bank stocks are not large but are concentrated in one or two issues, bank stock holdings become of greater significance.

1929 Compared with 1928

FIGURES were available as to the relative holdings of twenty-nine companies at the end of 1928 and the end of 1929. At the end of 1928, holdings averaged 5.8 per cent and totaled approximately $28,700,000. If the companies which did not have bank stocks were eliminated, seven in number, this percentage of average holdings would be increased to 7.7. At the end of 1929, these same twenty-nine companies, resources of many of which had been increased during the year, averaged 6.5 per cent or slightly greater than the average holdings at the end of 1928. Total resources in 1929 of the twenty-nine companies were $653,900,000, and bank stock holdings totaled $42,191,500.

Again, if the trusts which held no bank stocks were eliminated, the average holdings were 9.2 per cent, and if two specialized trusts are eliminated, average holdings are 7.45 per cent. The significant figures are the average holdings of 5.8 per cent at the end of 1928, and 6.5 at the end of 1929, although elimination of the companies not holding bank stocks or the elimination of specialized trusts increases the average percentages.

The Same in Newer Trusts

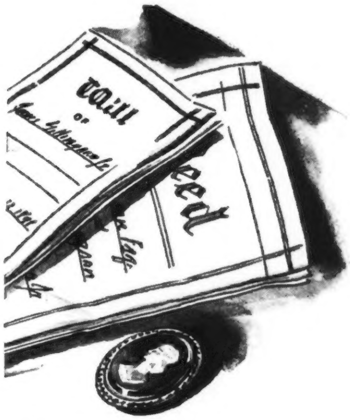
THE survey of forty-three new investment companies whose initial reports were that of November or December, 1929, or in a few cases, February and March, 1930, indicated average holdings of bank stocks of 6.89 per cent. Total resources of these forty-three companies were $1,387,700,000, and bank stock holdings amounted to $95,337,500. This percentage of average holdings corresponds closely to the average holdings of the older companies. The elimination of four specialized trusts from this group of new investment companies reduces the average percentage holdings to 4.26, and the elimination of the eleven companies in this group, not holding bank stocks, increased the average holdings of the remainder to 11.7 per cent.

The net result of the entire survey was that average holdings of bank stocks of the seventy-two investment companies with resources of over $2,000,000,000 were 6.74 per cent of their entire resources at the end of 1929. Elimination of eighteen companies having no bank stocks in their portfolios increases the average holdings of the remainder to 8.8 per cent, but if the six specialized companies having large percentages of their resources in bank stocks are eliminated, the average holdings are reduced to 4.79 per cent. This latter figure is the average of forty-eight general management trusts whose investment policy is usually that of including many securities of all types, so that this percentage of less than five of total resources is quite logical and in accordance with the general canons of diversification.

Why Holdings Are Small

SEVERAL causes may be cited for the non-inclusion of bank stocks in the portfolios of general management trusts or their inclusion to only a limited degree. The first is that of the low ordinary income yield obtainable from bank stocks. Another cause would be the lesser degree of marketability of bank stocks compared to the 103 industrial common stocks of the 109 most popular stocks in the survey cited above. All of these most popular stocks are listed on the New York Stock Exchange or New York Curb. This does not infer that bank stocks are unmarketable, but there is

(Continued on page 1187)



A WILL, AN OLD BROOCH

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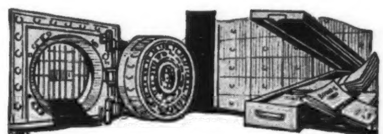
National Income Little Affected by Stock Decline

By DONALD B. WOODWARD

Two Per Cent of the Population Furnish 60 Per Cent of Total Government Revenue. Analysis of Income Taxes Shows Business and Wages Contributing Ever Smaller Share Compared with Mounting Profits from Security and Real Estate Trading.

THE United States Government has finished collecting the first quarter installment of income taxes for 1929. The year was one of unusual developments in finance. It encompassed the highest level of prosperity and one of the greatest stock market slumps in the history of the country. Special interest attaches to the question of what temporary and permanent effects these developments had on the national income. Prophecies ranged from dire to optimistic.

The March income tax payments provided the first true indication and agreeably surprised even the conservatively optimistic. The national income for the year as a unit apparently was but little affected by the stock market decline. The nine months of good times almost fully counter-balanced the three less favorable. Some individuals lost heavily and others gained. The same happened to corporations and the whole conglomerate which makes up our national economic structure.



Hard to Upset

ONLY about one-fourth of the national income is taxable. The remainder is comprised in the huge total of incomes below the limit and the part made up of tax-exempt securities. This article, using key figures, shows how the bulk of America's income has reacted to the recent bombardment of adverse economic forces. Reduced to percentage it would appear that ninety billion dollars is too heavy for even a stock market crash to budge.

$50,000,000 Under 1929

PAYMENTS approximated $550,000,000 as compared with about $600,000,000 for the first quarter in 1929. The tax reduction applying to incomes of 1929 largely accounted for the reduction. This, of course, included the reduction of 1 per cent in the rate on corporation incomes and the varying reductions on incomes of individuals.

At the time this reduction was announced it was estimated that the people would be saved about $160,000,000. Divided, that would mean a reduction of $40,000,000 in the payments each quarter of this year from the corresponding quarter of last year, if the national income had remained the same. The deviation from this figure, as can be seen, was remarkably small—amounting to only a little more than 1 per cent.

Corporations paid income tax totaling $321,824,000 in the first quarter of 1929 (largely in March). This was within $7,000,000 of the total for the same period of 1929, despite the tax reduction. The prosperity of the corporations was responsible for bringing the total beyond $550,000,000 in the March quarter. Payments by individuals totaled $306,254,000. This was a decrease of $40,000,000 from the same quarter a year ago, and reflected little more than the tax reduction.

Income tax payments both by corporations and individuals for the first three quarters of the Government's fiscal year ending June 30 were in excess of payments for the first three quarters of the last fiscal year. Individual payments total $865,793,000 against $763,303,000 last year. Corporation payments stand at $946,888,000 as compared with $925,860,000.

This favorable showing immediately raises the question as to whether it may not be possible for the Government to continue in effect the income tax rate reductions. The cuts made last fall, it must be remembered, aimed to aid business were applicable only to incomes for 1929. Thus, without further action by Congress incomes during this year will be subject to the previous rates established in the revenue act of 1928.

More time is necessary to answer this question. First quarter payments are an excellent indication, but the Government will want to see further how they carry through. Expenditures by the Government will affect this problem very greatly. Expenditures are tending to mount. This is especially noted in the case of the Federal Farm Board, which has recently called for another $100,000,000 bringing its total funds up to $225,000,000.

Uncle Sam Needs the Money

THE yield from taxes on incomes is very vital to the United States Government—almost as vital as are the incomes themselves to the public. Income tax payments account for 55 per cent to 60 per cent of Uncle Sam's total income. Government officials therefore are very much concerned with the problem from a receipts standpoint to say nothing of the social interest from the standpoint of the welfare of the people. They have learned a lot about the nation's income from their constant study of it and not the least item of knowledge is how to estimate the receipts rather accurately.

Some very definite trends have taken place in recent years in that part of the national income which supports the United States Government. The nature and incidence of the income tax has changed sharply from the form which it had at the time of its inception. People are receiving their income differently and from changing sources. They are using this income differently.

Perhaps the most startling and interesting point about the whole question of income and taxation is the comparatively small number of people who actually

pay the major part of the cost of the Federal Government, and the relatively small amount of the national income which is so taxed.

Fraction of Total Taxable

IT has been reliably esimated that the national income now equals about $90,000,000,000. Yet only about one-fourth of this total is included in the amount which is susceptible to income taxation. And from this one fourth the Government gets almost 60 per cent of its receipts.

The importance of the income of the people, as contrasted with the income of corporations has been growing rapidly. For 1928 individuals paid more income tax than corporations. This may or may not continue to be the case, but the trend has been definitely in that direction for a number of years. Since the rate of corporation tax is much higher than that for individuals it can be seen that individuals and not corporations—as anti-big business devotees would have it believed—have the preponderance of income.

The individuals reporting for taxation are only slightly more than 3 per cent of the people of the country. Only about 2 per cent of the people have taxable incomes. It can at once be seen that the people with these incomes are also those individuals who own the larger part of corporation stocks — actually own the corporations. Thus it is from the income on the capital of these people that the corporation taxes come.

An Inverted Pyramid

BRIEFLY, that means that about 2 per cent of the people of the country are responsible for nearly 60 per cent of the expenses of the United States Government. That is a rather narrow base. These figures contrast with about 15 per cent who vote in presidential elections and the entire 100 per cent who receive—theoretically at least—benefits of the Government. The balance of the Government receipts come from customs duties and miscellaneous internal revenue, the chief item of which is tobacco taxes.

Likewise, certain very definite areas pay the predominate part of the cost of the Federal Government. Of the total payments by corporations nine of the forty-eight states pay 75 per cent. With individual income payments, the figure goes to 80 per cent for the same nine states. These are: New York, Illinois, Pennsylvania, California, Michigan, Massachusetts, Ohio, New Jersey and Missouri.

Approached from another angle some very interesting facts on the whole subject have been found by the Treasury in its studies. The Government is charging those who pay for its upkeep more and more each year. The incomes, of course, have grown larger on the average, as exemptions have been increased.

Consider these figures for example: The average income for individuals whose incomes are taxed now is more than $6,000 as compared with well under $5,500 in recent years. The average tax per income has grown more sharply. In 1924 it was $95, and in 1928 had grown to $281.

Wealthy Pay More

WE hear much of decreased tax rates these days as always. But the average rate of tax for individual incomes has grown steadily, instead of decreasing. In 1924 the average tax rate for all incomes taxable was 2.74 per cent. In 1928 it stood at 4.64 per cent. More people were exempt, but the burden on those who do pay was increased sharply as witnessed by these figures.

Dissatisfaction frequently is expressed over the inequality of taxation because of the presence of tax-exempt securities. And it is said that these provide a shield behind which many hide to avoid "rendering unto Cæsar that which is Cæsar's." So far as the Federal income tax goes the facts do not bear out this theory.

The securities issued by the Federal Government have of course been decreasing in recent years, while those outstanding from states and municipalities have been increasing. The total of such securities held by individuals with incomes of $5,000 and above at the end of 1928 was $5,151,000,000 including both wholly and partially tax-exempts. Total interest payments on these in 1928 were $255,411,000. That was only 1 per cent of the total reported for that year, and the amount of additional taxes which the Government would have received had these been taxable would have been quite small.

Whence Comes Income?

SOURCES from which income which is taxed by the Government comes is perhaps of greatest interest to the banker. Here perhaps the most definite trend and the most interesting in our recent economic structure has developed in the past five years. Whether this trend will be changed as a result of the catastrophic affairs of 1929 is uncertain, but the trend was definite through the six-year period 1924-1929.

Wages, salaries and businesses as a source of direct income have dropped steadily for individuals in the United States. The income from security dealings has increased just as steadily. The individual who deals with people and their money must find this one of the most important trends of the times.

Business, wages and salaries provided 60 per cent of the total reported income of individuals in 1924. In 1928 the proportion had dropped to 54 per cent and showed signs of dropping still further. Contrast this with an increase to 45 per cent from 40 per cent during the same period of the income derived from securities trading, interest, dividends, real estate trading and rental. All except the trading profits, of course, are as the result of the growth of capital and the natural growth of the return therefrom. But a striking thing is that the growth of income from security trading has been the item which has increased most rapidly.

Trading Profits Bulge

PROFITS from sales of real esate, stocks and bonds other than that reported under the capital gains tax accounted for 10.33 per cent of the income in 1928 against 7.89 per cent in 1924—a gain of 30 per cent. Capital gains under the tax by that name accounted for 6.47 per cent of the income in 1928 against 3.72 per cent in 1924—increase of almost 75 per cent.

In contrast the income from interest and investment income accounted for 7.23 per cent in 1928 against 7.18 per cent in 1924—increase of less than 1 per cent. Dividends from stock of domestic corporations accounted for 15.45 per cent in 1928 against 13.71 per cent in 1924—a growth of about 13 per cent. The increase in dividend payments is of course largely caused by the huge increase in amount of stocks and bonds outstanding. This in turn is due to incorporation of more and more business to form larger units and to take advantage of the corporation tax rates instead of the generally—in effect—higher rates on other sources.

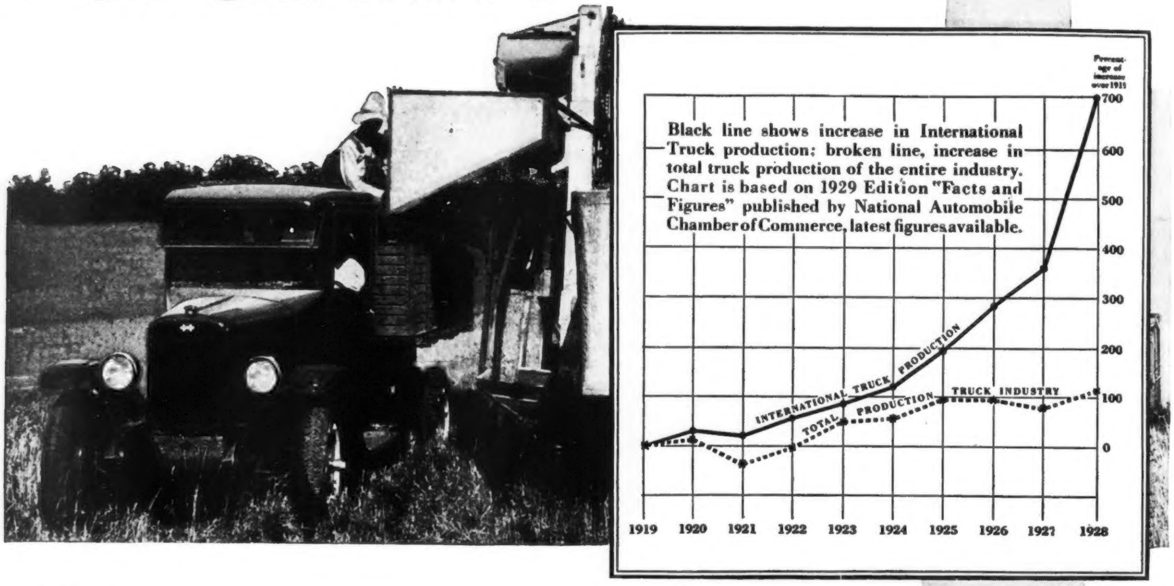
Railroad Credit

PRESIDENT E. E. Loomis of the Lehigh Valley Railroad, in a letter to the JOURNAL, briefly analyzed the outlook for railroad credit.

"The strong railroads of the country," he stated, "are today obtaining credit on just as advantageous terms as are the strong industries, and this is as it should be as railroad investments have the added safeguard of the very close surveillance of the Interstate Commerce Commission.

"Under present day conditions, with gross revenues lagging from 15 to 20 per cent behind those of 1929, it is but natural that the securities of the railroads, whose earnings reports from month to month become an open book in the hands of the public, are subject to quicker reaction in the market than the securities of other industries.

This CHART Shows the Wonderful Growth of INTERNATIONAL POPULARITY



BACK in 1919 International trucks were already very popular. On the farms and in the cities, many thousands of men were saving their time and money by hauling their loads in trucks made by International Harvester. In that year Internationals were already in the front rank of production.

Yet that was only a start. Note what has happened *since* 1919. Although the manufacture of all trucks has only DOUBLED in the ten-year period, the manufacture of Internationals has multiplied SEVEN FOR ONE. The lines on the chart above show clearly how the need for low-cost hauling has increased the demand for this International Harvester product.

◆ ◆ ◆ ◆

International truck popularity has kept pace with the popularity of McCormick-Deering farm-operating equipment. McCormick-Deering 15-30, 10-20, and Farmall tractors and the many machines that comprise the McCormick-Deering line are rendering a tremendous service in saving labor charges, lowering the costs of production, and removing the drudgery from farm life. On every hand it is demonstrated that trucks and good equipment make the good farmer better.

International
1½-ton Speed Truck

The Six-Speed Special

The scene at the top of the page shows the popular Six-Speed Special—the original heavy-duty Speed Truck with six forward speeds. Through its 2-speed axle it combines high road speed with tremendous pulling power for gumbo, steep hills, and soft fields. It has sturdy members throughout, good looks, and 4-wheel brakes. The Six-Speed Special is a great favorite for rural hauling.

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INTERNATIONAL

INTERNATIONAL TRUCKS

Era Favors Investment Affiliates

By H. H. PRESTON and ALLAN R. FINLAY
The former of the University of Washington and the latter of Scudder, Stevens & Clark, New York

Active Entry of Banks Into Business of Originating and Distributing Security Issues Has Increased Public Confidence in Stock Investments. Change Involves Risk but Stimulates Profits. Among Drawbacks Are Expenses of Research Work.

THE bank and its stockholders gain certain important advantages through the establishment of an investment affiliate. On the other hand many bankers express emphatic opposition to the idea and it will be necessary to discuss these adverse views along with the benefits. Little information is available with regard to earnings. A primary reason for this appears to be the fact that profits from this type of business are susceptible to extreme fluctuations. Generally speaking, the chief facts favoring investment affiliates can be described in this way:

1. The former bond department was extremely limited with respect to its operations, and in particular to the types of securities in which it could deal. Affiliated companies, as separate organizations, may deal in various classes of securities with almost no restriction. This, of course, allows the affiliate to offer common stock to its clients, an important factor in view of the trend toward this type of investment medium during the past few years. As a corollary of this situation, the affiliate may participate in the profitable rewards accruing from the judicious investment of its own capital in common stocks.

Has Its Own Bank

MOREOVER, although it is normal for the affiliate to limit its investments to the amount of its capital, in the event that particularly attractive opportunities presented themselves, the company would be in a position to borrow from the affiliated bank. This greater freedom in action accompanying the affiliate type of organization is recognized as an important element in its successful operation. The results accruing from these advantages have been quite profitable, during the past few years, to stockholders of affiliated banks.

2. Investment companies may establish branches without limit as to location or number, whereas the usual bond department is, of course, limited in its branch expansion by the laws imposed upon branch banking under state and national law. Instances of investment affiliates which have established branches in addition to the main office are as follows:

	Domestic	Foreign
National City Company	51	9
Chase Securities Corp.	26	..
Bankers Company of New York	20	2
Continental Illinois Co. (Chicago)	12	..
First National Old Colony Corp. (Boston)	17	..
Hibernia Securities Co. (New Orleans)	7	..
Guardian Detroit Co.	5	..
Shawmut Corp. (Boston)	3	..
Anglo-London Paris Company	3	..

Should Be Separated

WHILE the above list is not complete it reveals an advantage of the separate company over the bond department that seems destined to become of increasing importance unless branch banking is authorized on a more extensive scale. In California, where the leading companies are affiliated with branch banks, the companies extend their investment service to the bank's clients through the branches of the bank. In effect, this is a branch of the investment affiliate but is not separately maintained.

Why They Grow

FUNDAMENTAL conservatism and greater resources of commercial banks are cited among reasons favoring the spread of investment affiliates. In last month's JOURNAL *Mr. Finlay and Prof. Preston described the rapid growth in number of banks which have undertaken to serve their security-buying customers directly. This article analyzes the effects of the movement and explains why some banks hold aloof.*

3. As a result of the difference in character between the investment business and general banking, there are differences in management and policy problems. Consequently, the separation of these two elements through the establishment of an affiliated company allows a more effective execution of each, and creates a greater degree of harmony between departments than frequently exists when the investment business is handled by a bond department. Moreover, the higher scale of initial compensation and more rapid advancement for successful men which characterizes the investment business may be more adequately recognized through the separation of this phase of operations from the general banking business.

Facilitates Bookkeeping

4. An affiliated securities company operating its business on independent capital can run its books on a strict merchandising basis, carry open accounts, show accounts receivable, et cetera; bank accounting does not permit of simple and concise bookkeeping for merchandising purposes.

5. The establishment of an investment affiliate is accompanied by the development of an investment research department of varying proportions. The consequent availability of investment counsel tends to improve the quality and organization of the affiliated bank's bond account.

With regard to the effect of this trend toward the establishment of investment affiliates upon the investment field in general, the following advantages may be given in support of the contention that the standards of investment banking have been raised:

Attracts Bank Customers

1. This type of organization is in a better position to develop prospective investors. Banks which have not maintained an investment service have been disposed to encourage depositors to allow their savings to accumulate in the

savings departments of the banks. Many depositors interested in launching an investment program have felt reluctant to go to the banker for investment advice when they realized that if they purchased bonds or stocks the bank would lose a deposit account. Others were disposed to discount his admonitions against certain classes of investments. A larger number were probably, therefore, a prey to unscrupulous dealers in fraudulent, or highly speculative, securities than if educated in investing by the officers of the banks and their affiliated companies.

2. Increased conservatism is introduced into the investment banking field as a result of its affiliation with general banking. This provides additional safety for money invested because of the usually greater responsibility and conservatism of bank officials.

3. In point of size and financial resources, the average investment affiliate is larger than the average independent investment house. Such large organizations, together with a generally more conservative management, provide a more effective underwriting of issues in that a single company, or at most a few such affiliates, can underwrite and distribute a large issue. If handled by independent houses, an issue of similar size would frequently have to be underwritten by a large syndicate of relatively small companies. This narrowing down of the number of companies involved creates a greater interest, and centers responsibility, thereby assuring the investor of greater security.

"Dumping" Avoided

4. The normally greater resources of investment affiliates make it possible for them to maintain a larger and more diversified inventory of securities, in order to satisfy the investment requirements of all their clients. Moreover, in the event of temporarily adverse conditions, they are in a better position to hold these securities longer without "dumping" them on the market or on unsuspecting investors.

It is quite possible that the standards of investment banking may be raised through the operation of investment companies as affiliates of banking institutions. With more conservatism, more centralized responsibility, greater resources, and more intensive educational and missionary work among potential investors, accompanying this type of organization, it is only natural that the confidence of the public in investment dealers as a class should be increased.

But it would be an incomplete study which did not examine the possible disadvantages in the situation. Many highly successful banks in the United States have never actively engaged in the distribution of bonds or stocks either through a bond department or an affiliated investment company. Quite a number are firm in their intention not to change now. Canadian banks take such a position. Disinterested critics, notably Professor Arthur S. Dewing of Harvard, have objected to this trend toward the assumption of investment banking functions by commercial banks. What, then, are the objections, and to what extent are they valid?

Fear Loss of Goodwill

SOME banks have refrained from entering the investment field because of a desire to retain the goodwill of investment institutions which are valued customers of the bank. Such a situation appears to be of primary importance in Canada particularly. This might deter a bank from being the pioneer in its city, but its effectiveness is diminished at present in view of the already widespread establishment of these affiliates.

Another objection not infrequently raised is that the banker who sells securities is no longer in a position to give disinterested advice. The slogan, "consult your banker before you buy," may simply mean that he will thereby be given an opportunity to sell his own wares. This objection doubtless has considerable weight, though there is little evidence that bankers have directly exploited customers seeking investment advice.

The most fundamental objection appears to be the additional risk which the investment company places upon its affiliated bank. Is the assumption of this additional risk a wholesome situation in our banking organization?

What Are Banks For?

THE key to the solution of this question lies in one's conception of banking. Shall one consider this country's banking system as an immense reservoir of credit, a financial backbone, or shall our banks be viewed purely as business organizations, operated for the greatest profit obtainable? The former view is perhaps the one which our forefathers held most sacred. The latter appears to be the present day conception. If the former view is accepted, three distinct sources of additional risk, inherent in the operation of an investment affiliate, must be faced.

In the first place, sound investment by the affiliate for its clients or its own account must necessarily be founded upon considerable research, particularly where common stocks are involved. And research work, to be adequate, must involve more than simply a study of statistics; it must include continuous contact with the management of companies whose equities are selected. With the rapid development of investment affiliates, it is to be seriously doubted whether adequate research work can be maintained by the new and smaller organizations at least. With regard to such affiliates as exist in connection with big city banks the size and strategic position of financial resources involved is sufficient to warrant the expenditure of large sums in research. However, with the number of smaller investment affiliates, which have been established during the past few years, as large as it is, one may feel justified in requiring more positive proof of adequate research work on their part than is evidenced today. Otherwise, it can hardly be admitted that this source of additional risk has been surmounted.

Boomerang Mistakes

AGAIN, additional risk is assumed since possible misjudgments in the financial operation of affiliated companies tend to reflect adversely upon the respective banks and trust companies. Despite the fact that such a situation represents only a tendency, and that a specific instance of this in connection with a prominent New York bank several years ago created little more than a temporary reflection, still there remains the fact that the tendency is present. If one holds the view that banking institutions are purely reservoirs of credit, one must admit that the advisability of assuming this further risk is open to question.

Lastly, investment affiliates in their underwriting operations are open to the same disadvantages which other investment houses face. In spite of the fact that the underwriter possesses a theoretical freedom of choice with regard to refusal of issues, this is limited in practice by the fact that refusal to underwrite a weaker issue will be penalized by loss of opportunity to participate in a stronger issue, later, when both are initiated by the same corporation or government. This factor, while it would hardly result in the underwriting of anything like a fraudulent issue, does create a situation in which numerous weaker issues accumulate among the real strong ones. The additional risk which this situation entails is inherent in the underwriting phase of investment work, and consequently, in broadening the commercial banking field to include investment banking, the normal risk is appreciably increased.

Business Generally Profitable

ON the other hand acceptance of the general present-day conception of banking institutions as business organizations justifies the assumption of the additional risk inherent in

(*Continued on page* 1191)

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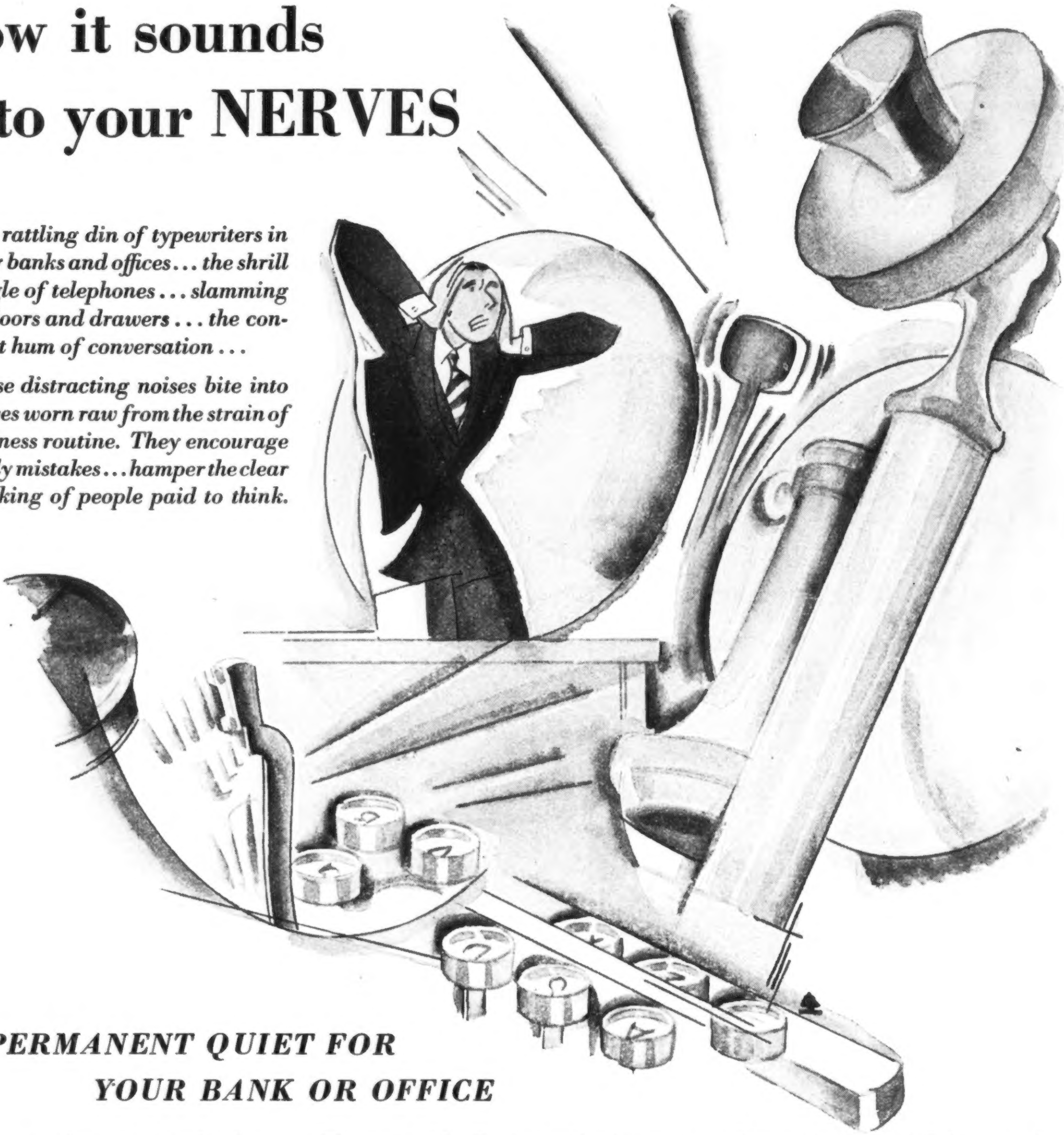

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Congressional Banking Inquiry

Testimony Has Been Geographically and Economically National. Law-Makers Have Assembled Facts, Figures and Opinions From Government Officials, Branch, Group and Chain Executives, State Bank Commissioners and Supporters of Unit Banking.

Until Autumn

THE study of recent trends in banking by the House Banking and Currency Committee approaches an end and a beginning. The hearings will get under way once more this fall with the added impetus of a separate inquiry by the Senate. Possible legislation is still discernible only in vague outline and some distance in the future. The committee appears in no mood to rush hastily into the task of modelling new laws. The Senate program will center around the reserve system.

THE closing days of the hearings being conducted by the House Banking and Currency Committee on group chain and branch banking have seen a lessening of interest on the part of members of the committee, many of whom have been compelled to give some attention to re-election campaigns at home. The outstanding witness toward the end of the session was Henry M. Dawes, who, when Comptroller of the Currency, was an outspoken opponent of branch banking. He said that unit banks could not survive the competition of chain or branch banks. Interest now appears to be shifting somewhat to the proposed hearings which are to be undertaken by the Senate committee.

Trend of Legislation

THE actual legislative outlook remains unchanged, there being absolutely no prospect of any enactment at the present or next session of Congress touching upon banking. The measure, introduced by Chairman McFadden, which would have prevented any person or corporation from acquiring more than 10 per cent of the capital stock of any national or state bank member of the Federal Reserve System, without the sanction of the Comptroller of the Currency or the Federal Reserve Board, appears to have served its purpose, according to its author. Its aim was to give publicity to the operations of certain persons seeking to organize group banking systems without the necessary financial backing. While it was described as an effort to curb group banking, the strong systems already in the field would have welcomed its passage, because future acquisitions by them would, under its provisions, have had the open approval of the Federal Government.

It becomes increasingly apparent that sooner or later Congress will authorize some form of limited branch banking for national banks. It is a general belief that the Senate is predisposed to favor a limitation to state lines. Senator Glass of Virginia is preparing legislation which would authorize state-wide branch banking in the national system.

Along with whatever branch bank authorization is written into law, it is believed there will be some regulation of group banking. Such regulation, however, would not be drastic in form, probably permitting the Comptroller of the Currency to examine all holding corporations and affiliates of any group with which a national bank is connected. In fact, if the branch bank authorization is upon a territorial basis of either trade area or Federal reserve districts, most of the present groups will, according to their own testimony, convert into branch systems, leaving very little in the way of holding company organization that will require supervision.

May Affect Unit Banks

THE independent unit bank will be left undisturbed for the most part, although there may be provisions included for a minimum capitalization, based on the experiences of recent years, perhaps for a limited form of departmental banking with segregation of savings assets and possibly additional regulations covering fiduciary transactions and the operations of investment affiliates. Some of the members have commented on the fact that whereas, bankers and Government officials have unanimously agreed that one of the main troubles with our present banking structure is that there are too many banks of inadequate capitalization, there are, nevertheless, many new state banks of $25,000 capital and under, being currently chartered.

Among those appearing before the House Committee were A. P. Giannini and James A. Bacigalupi. Mr. Giannini was vigorous in his expressed conviction that branch banking is coming and cannot be stopped. He asserted that if nationwide branch banking were permitted, the Bank of Italy would immediately establish branches in all the leading commercial centers of the country.

Mr. Bacigalupi told the committee why the Transamerica Corporation had been formed. There was in the middle of 1928 an unprecedented demand for Bank of Italy stock, he said. Much of the stock was purchased on loans, collateral for which was held in escrow by competing banks. Their market values increased in leaps and bounds. Terms of the escrows called for selling the stocks on the market should the price reach a certain low level. The public was warned to refrain from purchasing the stocks of the Bank of Italy and Bancitaly Corporation unless they bought them for cash and for an investment. The warnings had no effect and the Bank of Italy stock reached $300 and the Bancitaly Corporation stock $200. In June, 1928, a decline came. With many sellers and no purchasers the stock descended to low points, and with each new low more was forced to be offered for sale. This occurrence, Mr. Bacigalupi said, led to the formation of the Transamerica Corporation.

Safeguarding State Banks

STATE banking authorities who have appeared before the House committee, both those against branch banking and those who do not oppose it, were actuated by a desire to preserve state banking systems. They brought out that in the event national banks were permitted to go beyond state lines in the establishment of branches, state banks might meet the competitive situa-

tion that would result by reciprocal agreements among states, authorizing banks to extend branches to adjoining states.

Members of the House committee and close observers of the hearings are of the opinion that some reaction has set in against banking concentration, particularly in the form of group systems.

The representatives of group banking who have appeared before the committee following the proposal for branch banking within trade areas, which was advanced by John W. Pole, Comptroller of the Currency, indorsed by Roy A. Young, Governor of the Federal Reserve Board, have been given every opportunity to present their ideas and convictions to the committee. Even the appearance of Messrs. Bacigalupi and Giannini was not, as some had expected a near-inquisition, but rather a full opportunity for nation-wide and even world-wide branch banking to have its virtues expounded as seen by those two men. One member of the committee who has consistently opposed branch banking of any kind whatsoever, was seemingly so overcome by the proposal for world-wide branch banking that his most extreme question following the testimony of the witnesses was to the effect, "Don't you think we might start branch banking within trade areas?"

The Case for Unit Banks

IT has been hinted around the committee room that considerable difficulty has been experienced in finding witnesses to plead the cause of independent unit banks at the hearings, aside from state banking supervisors, who perhaps feel that trade area branch banking, if not state-wide, would cause many state chartered institutions to become national banks. One representative of unit banks when questioned following his formal plea for adherence to the unit banking system, said that he favored the proposal of the Comptroller of the Currency for trade area branch banking, provided certain restrictions, which he named, be made a part of the proposal. One of these restrictions would be that no bank might be permitted to establish branches in a city other than its own, if that second city had a population of 10,000 or more.

Events Outside Washington

CERTAIN occurrences of recent weeks have been cited as straws indicating a veering of the wind. The speech which Benjamin M. Anderson, Jr., economist of the Chase National Bank, New York City, made recently before the convention of the North Carolina Bankers Association, is referred to by some of the followers of branch banking sentiment as "the first big gun" to be fired by New York City banking interests against the development of either branch banking beyond the limits of the city where the parent bank is located or group banking as at present constituted. The entrance into New York City of the Marine Midland group of banks through its purchase of the Fidelity Trust Company, the transcontinental hook-up of the Bank of Italy on the Pacific Coast with the Bank of America in New York, the possibility of other groups securing an entering wedge into that city and the aggressive proposal of Bank of Italy interests to establish a nationwide network of branches in the event that Congress makes that possible, is believed possibly to have caused a change in the attitude of some New York banks.

Small Trade Area Plan

M. A. GRAETTINGER, secretary of the Illinois Bankers Association and a proponent of the independent unit bank, has come forward in a recent bulletin of the association for what he calls "cooperative banking unions" among the small country banks of Illinois "to meet the entry of group and branch banking into Illinois." His proposal seems to be a group banking area with one or two counties as the territorial unit in which the banks organize and direct their group systems rather than have it done for them by some more distant institution.

Moreover, there has been organized in the state of Minnesota an independent bankers association which appears to be protective in its nature. These and similar occurrences here and there throughout the country are thought by those closely in touch with the situation in Washington to have significance.

There has been little agreement among those who have appeared before the committee and a review of their testimony indicates that perhaps no one banking system will fit the needs of all the various sections of the country. Members of the committee are frankly puzzled as to just what to do, although the majority of them seem to feel the necessity sooner or later for doing something. In general, it might be said there is less fear than there was of group banking when properly organized and properly managed, and there is less fear of branch banking if conducted within a not too wide territorial area. The inquiry has spread beyond branch, chain and group banking as such, and has passed on to include regulations necessary in the event that branch banking is to be santioned or group banking permitted to continue.

The committee now has the testimony of Pacific Coast interests that branch banking on a state-wide basis is working satisfactorily and that it would be equally successful on a Federal reserve district or nation-wide basis. It has the testimony of group bankers from the Northwest that branch banking would never be accepted by the people of that territory, but that the cooperation of banks in a group with the continuance of local independence and local interest is meeting with enthusiastic response.

It has the testimony of other group bankers that the systems devised by them have resulted from the impossibility of organizing branch systems and that an opportunity to convert to branch banking would be welcomed. It has the testimony of state bank commissioners that group banking well managed is a splendid thing; that branch banking on a state-wide basis would not be objectionable and, on the contrary, that both branch and group banking should be checked. Various types of group organization and structure have been revealed, in some cases a holding company owning the stocks of the banks in the group, and in one case at least the dominant bank in the group having as its subsidiary a holding company which owned the stocks of the other banks.

Several of the members of the committee have in questioning each successive witness referred to the incongruity between state and national systems, which Representative Luce of Massachusetts early in the hearing called attention to. The point has been made repeatedly that one of the chief evils of group banking grows out of the fact that the holding company includes both state and national banks, with different supervisory officials. It has been pointed out that if all the banks in a group were under similar supervision that difficulty would be obviated.

The Senate inquiry into the Federal Reserve Board, the credit situation and the development of banking in recent years, was authorized by the Senate without a dissenting vote. Opportunity to bring the matter before the Senate for consideration was prearranged, according to some members of that body, with the understanding that the investigation was not to be initiated until the fall.

Tentative plans for the hearings are being considered, however, with the possibility of the appointment of a subcommittee of the banking committee to arrange for the first witnesses. By the terms of the investigating resolution, the Federal Reserve System will come in for the major part of attention, and it is therefore likely that Governor Young and members of the Federal Reserve Board will constitute the first group to be heard when the hearings are begun next fall.

The Security Underlying Land Bank Bonds

By WALTER HOWELL

Assets of Each Institution Divided into Four Kinds: Quick, Good, Undesirable and Slow. Net Mortgage Loans Are Largest and Principal Item Determining Stability. Chief Liabilities are Unmatured Farm Loan Bonds and Accrued Interest Thereon.

THE organization of the Federal Farm Loan System brought to the American investor a new type of investment, land bank bonds. It provided for two kinds of land banks, Federal land banks and Joint Stock land banks. Since the organization of the system in 1917 there have been issued and sold to the public more than $2,000,000,000 of land bank bonds. On Dec. 31, 1929, there were outstanding $1,831,113,180 of these bonds, $1,190,245,780 of which had been issued by the Federal land banks and $640,867,400 of which had been issued by the Joint Stock land banks.

These bonds are owned by hundreds of thousands of investors throughout the United States. In buying them the investors seemed to consider only that they were tax exempt and the issuing bank was under Government supervision. In many instances the salesmen distributing these bonds and the persons buying them had very little, if any, knowledge of the law governing their issuance, the collateral pledged as security or the provisions under which they were issued. The severe decline in the market value of from ten to fifty points during the last eighteen months has caused many investors to become dissatisfied and wonder just what security is pledged for the payment of such bonds.

Before Buying

MR. HOWELL here presents an interesting array of information concerning a much misunderstood type of bond. He tells why land bank bonds were issued, what makes some more stable in value than others, suggests which factors must be given consideration by investors and describes the comparative importance of each factor. He reduces the arithmetic of conventional bank statements to a form that is readily understood.

Board Must Approve

ALL bonds issued are the direct obligation of the issuing bank and such issue must be approved by the Farm Loan Board in Washington. Before the Farm Loan Board will approve a bond issue there must be assigned to and deposited with the registrar of the land bank district approved first mortgages on farm lands or Government bonds equal to at least the par value of the bonds issued.

Each Federal land bank by proper resolution acknowledges its liability for the unpaid coupons and bonds of every other Federal land bank. This liability would extend to the free and unpledged assets of the bank only. The collateral pledged for the security of its own bonds could not be used for this purpose. In 1923 the law was amended permitting the Farm Loan Board to issue consolidated bonds on behalf of the Federal land banks, all of the twelve Federal land banks being obligated for the payment of these bonds and all of the collateral pledged by any of such banks being liable for any of the bonds so issued.

Management Important

THE bonds issued by Joint Stock land banks are the direct obligation of the issuing bank and no other, the collateral pledged by such banks being held as security for its bonds only. Since the bonds issued are the primary obligation of the issuing bank, be it either Federal or Joint Stock, the investor should consider the management of the bank, the solvency of its shareholders, and the character of its assets and liabilities. Due consideration should be given the joint liability of all Federal land banks. This joint liability tends to strengthen the weaker bank and to weaken the stronger.

The brokers offering an issue of bonds usually can give reliable information concerning the bank's management and the solvency of its shareholders. The shareholders of the Federal land banks are the borrowers through their National Farm Loan Association, who must subscribe for stock in the National Farm Loan Association equal to 5 per cent of their loan at the time they make applications for such loan. At the same time the National Farm Loan Association must subscribe for the same amount of stock in the Federal Land Bank. The Federal Land Bank holds this stock as additional collateral security for every loan made through that association. The National Farm Loan Association holds the stock issue to the borrower as additional collateral security for this loan.

The law provides that "said capital stock shall be paid off at par and retired upon full payment of said loan." The shareholders of the joint stock land banks are individuals or corporations. This stock carries a double liability which is a contingent asset not shown in the financial statement of the bank and if the shareholders are solvent should be given some consideration.

The financial statement of the bank will partially disclose the character of its assets and liabilities. To most people a financial statement of the condition of a bank is an array of figures which are arranged in some mysterious way so the total of the assets and the liabilities balance to a penny. Many of those who have the ability to understand a financial statement of a commercial bank are not able to analyze a statement of a land bank because they are not familiar with the accounting system of these banks.

Four Kinds of Assets

The assets of the land bank might be divided into four classes:

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Do Reserve Bank Notes Need Specific Collateral?

By C. T. MURCHISON
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Definite Security Coverage for Federal Reserve Paper Currency Declared No Longer Necessary. Before Reserve System Was Established Banks of Issue Dealt Directly with Public and Curb Was Required. Involves Deep-Lying Economic Forces.

New Conditions

THERE has existed a kind of unwritten law, based on long experience, that the right to issue paper money should be hedged in on all sides by high walls of security requirements and other restrictions to prevent inflation. In this article it is proposed to clip the snowy beard of tradition and permit "general asset" currency. In practice, says the writer, reserve banks make little distinction between collateral used for currency base and other collateral.

THE lively interest now taken in the solution of the problems of group banking and speculative credit should not be allowed to divert attention from other banking matters which are pressing for reform. Among the latter is the requirement that Federal reserve banks should deposit with their Federal reserve agents specific types of so-called "eligible" paper as collateral security for Federal reserve notes.

When the requirement was originally imposed, the action was wise as a matter of expediency. We had just passed through a century of experience with bank note regulation in which the absence of rigorous restrictions on issuance always resulted in inflation and monetary chaos. Inasmuch as the newly born Federal Reserve System was in many respects experimental and frankly regarded with skepticism by no small number of our best banking minds, it was obviously the way of discretion to cling to the precautions of the past rather than to the pure logic of the present.

New Set of Conditions

NOW that the Federal reserve banks are thoroughly assimilated to the system and the Federal reserve note unqualifiedly established as the most important part of our currency supply, a more rational method of issuance would seem in order and easy of attainment. Both for banking and economic reasons the "general asset" form of currency has become desirable. From the point of view of its structure the American banking system is more admirably suited to this type of currency than is the system of any other country.

When a bank of issue deals directly with the public, restrictions on its currency emissions either in the form of specific collateral security, or a quantity limitation, are usually advisable. During the pre-Civil War period, for example, we discovered that unrestricted banks would overissue notes on the theory that a large percentage of them would never return for redemption. In order to overissue consistently the banks had to overlend, but willingness to do this was not lacking so long as the percentage of doubtful or uncollectible loans was less than the percentage of notes which would go out and never return to claim their gold equivalents.

Issue Through Members

PRIOR to the establishment of the Federal reserve banks, there was good reason, therefore, to require each bank to set aside an inviolable "cover" for its issues and to adopt the additional precaution of a maximum limit of issue.

With the inauguration of Federal reserve notes the reasons for such currency restrictions ceased to exist. The banks of issue can no longer place their notes directly with the public. They can distribute them only to member banks as the latter make known their requirements. Member banks must pay for the notes in full prior to their release, hence they suffer a diminution of lending power in exact proportion as they order out Federal reserve notes. If the member bank has to borrow from a Federal reserve bank, as is often the case, to procure the notes, the process calls for a growth in quick liabilities which are in proportion to the acquired cash assets and which must be paid 100 per cent, regardless of the disposition made of the Federal reserve notes. Since currency on hand cannot be counted as reserves by the member banks, it is to their interest to keep their currency orders at a minimum, and to return excess immediately to the Federal reserve banks.

Under present conditions, therefore, member banks find it to their economic advantage to encourage the use of checks and drafts rather than bank notes in their respective communities. Such a policy means a relatively higher level of individual deposits, and a relatively lower level of member bank liabilities to the central banks, a result manifestly to the advantage of the member bank.

Checks Displace Currency

THE public likewise prefers to finance an increasing proportion of its business through the use of checks and drafts rather than currency, as is amply evidenced by the steadily contracting volume of cash in circulation.

Hence from the point of view either of member banks or of the public, current practices and policies are in automatic opposition to any inflationary tendencies that might be initiated through currency expansion.

From the standpoint of the Federal reserve banks, the degree of resistance to note inflation is still stronger. Credit advances made by them in the form of Federal reserve notes are more expensive as a matter of bank administration,

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Debits to Individual Accounts as a True Measure of Transactions

By C. A. CHAPMAN

President, First National Bank, Rochester, Minn.

Chairman of the Committee on Clearinghouses and Clearinghouse Functions of the Bank Management Commission of the American Bankers Association

AMONG the indices employed by financiers, statisticians, and economists the one universally used to cover banking transactions by districts or areas has been "clearings."

"Clearings" were the totals of exchanges effected between banks in given cities and the figures usually employed by financial journalists, economists, and banking students were those of central reserve cities. Clearings were for a great while the only available index in this field. None other was available for the reason that banking in the United States was, until the creation of the Federal Reserve System, a highly individualized business, the units of which were almost wholly unrelated except as their transactions were brought together in the exchanges through the clearinghouses of the central reserve cities.

IN fact one of the chief criticisms of the old independent banking system was its lack of cohesion and reciprocal inter-relationship. There was outside the great cities no machinery provided for assembling in an orderly and periodical grouping of volumes, the total of transactions passing through the whole of the individual banks within given areas. Clearings have become objectionable as an index because they cannot be freed from duplications; are cumulative of these duplications, and lack universality.

The general extension of the system of clearinghouses throughout the United States to a total of more than 400 and with cooperation of the Federal reserve banks, has finally provided the machinery through which can be produced a much more satisfactory index capable of clearer precision and analysis, namely, "debits to individual accounts." At the moment this is the best available index and this fact is coming more and more into general recognition. Throughout the country there is a concerted demand for the general use of this index and its replacement of the clearings index as soon as this can be done. Each individual bank, either through its clearinghouse, or directly through the Federal reserve bank of its district, cooperates in furnishing the necessary figures monthly or if found desirable, at shorter intervals.

IT is realized that the office files of the financial press and the source-material of the schools of business and of economists and students, comprise a collection of clearings figures over long periods in the immediate past from which have been drawn off tables, graphs and analyses of very great value. These cannot be immediately dispensed with and will doubtless be continued for a time parallel with the new index of individual ledger debits.

The new index will, however, make its way along with the old and eventually supplant it because of its accuracy, authenticity and divisability for analysis. This will very promptly make its appeal to both lay and financial writers, statisticians and the press.

It will be realized that this change must come about through the inherent superiority of the newer index. The change will be accentuated by the radical reconstruction of our entire banking structure which is now going on. This reconstruction involves the consolidation of banking institutions throughout the country. The reduction in the number of institutions in most cities produces a reduction of clearings to the extent that an enlarged portion of the volume will thereafter be transacted entirely within the walls of the consolidated institution which formerly passed through exchanges. The old index will therefore have a progressively decreasing importance and will soon cease to have value.

IT will be evident that when a city has a dozen banks of practically the same size effecting daily exchanges through the clearinghouse that a fairly satisfactory index is provided for the volume movements of banking transactions in that city. When, however, the number is reduced and the dominance of one or more of these banks is accentuated, the volume of clearings will necessarily be reduced and in case there remains but one institution in the city there will be no clearings to report. Comparing therefore such a city although of equal importance with another city of the same size but having a large number of institutions, a fictitious disparity in importance and volume of transactions would immediately be apparent.

It is therefore not at all surprising that a strong demand is arising throughout the country, particularly among the banks, for a transition to the new method of measuring banking volume and the adoption of the index of individual ledger debits.

More than a year ago the clearinghouse of Chattanooga, Tennessee, formally resolved against further use of its total exchanges as an index, arguing in the text of its resolution that:

"Clearings are an entirely unreliable and misleading measure of the amount of business in any city, the clearings being dependent upon the number of banks in the city in question, their relative size and other contributing influences regardless of the actual amount of business transacted by the banks." The resolution was to discontinue for the future the reporting of Chattanooga clearings and thereafter to report "only the total amount of checks paid or total debits."

MORE recently in February of this year the clearinghouse of Seattle, Washington, adopted a similar formal resolution couched in almost identical language and resolved to employ for Seattle only "the reporting of total amount of checks paid or total debits," the purpose of the resolution being very evidently the same as that of the Chattanooga clearinghouse.

At a recent meeting of the Portland (Oregon) Clearinghouse Association a resolution was adopted concluding as follows:

"The Clearing House Association of Portland unanimously endorses a movement to substitute for Clearings now generally reported, the reporting of the total amount of checks paid, or Total Debits."

In the early part of 1930 the Minneapolis Clearinghouse adopted the following resolution, namely, that the publication of clearings is not a true index of the business of a community, but that the total debits give a much more accurate estimate of business transactions.

THE Minneapolis resolution had particular reference to the definite exemplification of the new index in the reports of "debits to individual accounts" as published monthly for about two years past by the Federal Reserve Bank of Minneapolis, being a compilation of a suitably representative list of 100 cities, large and small, throughout the Ninth Federal Reserve District.

The definition of "debits to individual accounts" so reported is clearly stated at the opening of each report. It definitely

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The Proposed Bank Tax Amendment

(Continued from page 1119)

and associations engaged in banking, loan or investment business; (3) mercantile, manufacturing and business corporations measured by proportion of total state taxes to aggregate net profits.

Subsection 1 (c). In case of specific tax on shares, taxable value of each share determined by adding total dividends to net profits and dividing by total number of shares in state. Rate limited to rate upon other financial corporations and upon mercantile, manufacturing and business corporations in proportion to net profits. Minimum tax of one mill per share permitted.

Subsection 1 (d). Tax on dividends limited to rate assessed upon net income of other moneyed capital.

Subsection 1 (e). Tax on or according to or measured by net income may include (except where tax on net income) net income received from all sources. Rate limited to rate upon financial corporations and upon mercantile, manufacturing and business corporations in proportion to net profits. Special provision for State to allocate income of business corporations derived from business carried on within state; also for minimum tax on dividends.

Subsection 1 (f). Permission to state which imposes tax on or according to or measured by net income or specific tax to place additional income tax on dividend of shareholder where domestic or foreign corporation likewise taxed.

Subsection 2. Non-resident shareholders of national banks taxed at location of bank.

Subsection 3. Real property of banks not exempted from taxation.

Subsection 4. Permission in 1 (b) to intangible states to tax national bank shares ad valorem as therein provided without limitation to moneyed capital rate as well as permission to impose a specific tax on national bank shares or tax on national banks on or according to or measured by net income denied to those states which do not require financial, mercantile, manufacturing and business corporations to file statistics of net income and net profits as reported to the Federal Government and the total taxes imposed on such corporations by state authority and which do not annually compile and publish statistics showing aggregate net income and net profits of national banks, other financial corporations and mercantile and manufacturing and business corporations. Exception made of states which impose a specific tax on shares or a tax on banks on or according to or measured by net income at a fixed statutory rate and impose a tax on or according to or measured by net income at the same rate. Further exception of states which impose tax on or according to or measured by net income and which require filing of returns of net income, net profits, etc.

Subsection 5. Defines "net profits" and "aggregate net profits."

Full Text of Proposed Amendment

(Introduced in Congress, May 20, 1930; H. R. 12,490)

An Act to Amend Section 5219 of the Revised Statutes of the United States:

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, that section 5219 of the Revised Statutes of the United States, be, and the same is hereby amended so as to read as follows:

Sec. 5219. The Legislature of each state may determine and direct, subject to the provisions of this section, the manner and place of taxing national banking associations located within its limits or the shares of such associations. The several states may (1) impose an ad valorem tax on said shares, or (2) impose a specific tax on said shares, or (3) include the dividends derived therefrom in the taxable income of an owner or holder thereof, or (4) tax such associations on their net income, or (5) impose a tax on such associations according to or measured by their net income; provided the following conditions are complied with:

1. (a) The imposition by any state of any one of the above five forms of taxation shall be in lieu of the others, except as hereinafter provided in paragraph (f) of this sub-section.

(b) In the case of an ad valorem tax on said shares, the tax imposed shall not be at a greater rate than is assessed upon other moneyed capital in the hands of individual citizens of such state coming into competition with the business of national banks. Provided (1) that bonds, notes or other evidences of indebtedness in the hands of individual citizens not employed or engaged in the banking or investment business and representing merely personal investments not made in competition with such business shall not be deemed moneyed capital within the meaning of this section. Provided (2) that in any state in which bonds, notes and other evidences of indebtedness are taxed according to value at a fixed statutory rate or rates, less than the rate assessed upon tangible property, a tax on said shares may be imposed at a rate no higher than the rate assessed upon the shares of other financial corporations, nor upon the net assets of individuals, partnerships or associations employed or engaged in the banking, loan or investment business, nor higher than the rate assessed by the taxing state upon mercantile, manufacturing and business corporations having their actual principal place of business within such state. For the purpose of this proviso the rate of taxation upon the shares of national banking associations in any such state shall be deemed to be no higher than the rate assessed upon said mercantile, manufacturing and business corporations, if, so far as can reasonably be ascertained, the proportion which the aggregate of the taxes imposed upon the real property and the shares of national banking associations within such state bears to the aggregate of the net profits of such associations is no greater than the proportion which the aggregate of the taxes imposed upon such other corporations under authority of such state bears to the aggregate of the net profits of such corporations.

(c) In the case of a specific tax on the shares of national banking associations, the amount upon which the tax on each share shall be based shall be determined by adding together the total dividends paid during the preceding year by any such association and the amount by which the capital, surplus and undivided profits of such association at the end of such year exceeded the capital, surplus and undivided profits of such association at the beginning of such year, less any additions to capital or surplus paid in by the stockholders during such year, and dividing such total by the number of shares issued and outstanding at the end of such year. The rate of such tax shall not be higher than the rate assessed upon other financial corporations, nor higher than the rate assessed by the taxing state upon mercantile, manufacturing and business corporations, having their actual principal place of business within such state, in proportion to the net profits of such corporations; *provided*, however, that the taxing state may establish a minimum tax on each share under this paragraph, the base of which shall be the capital, surplus and undivided profits of the national banking association divided by the number of shares issued and outstanding and the rate not more than one mill on each dollar.

(d) In case the dividends derived from said shares are taxed, the tax shall not be at a greater rate than is assessed upon the net income from other moneyed capital.

(e) In case of a tax on or according to or measured by the net income of an association, the taxing state may, except in case of a tax on net income, include the entire net income received from all sources, but the rate shall not be higher than the rate assessed upon other financial corporations, nor higher than the rate assessed by the taxing state upon mercantile, manufacturing and business corporations, having their actual principal place of business within such state, in proportion to the net profits of such corporations. In case a state allocates for purpose of taxation the income of mercantile, manufacturing and business corporations derived from business carried on within such state, such income may be used as a limitation under this paragraph in place of the limitation above provided; *provided*, however, that the taxing state may provide whichever limitation is used, that such tax shall not be less than a tax, at the rate herein authorized, upon or measured by the amount of the dividends declared by such association during the preceding calendar or fiscal year, if an equivalent minimum provision is also made applicable to such other corporations.

(f) A state which imposes a tax on or according to or measured by the net income of national banking associations, or a specific tax on the shares thereof, and a tax on or according to or measured by the net income of, or a franchise or excise tax on financial, mercantile, manufacturing and business corporations organized under its own laws or laws of other states, or a specific tax on the shares thereof, and also imposes a tax upon the income of individuals, may include in such individual income dividends from national banking associations located within the state on condition that it also includes dividends from domestic corporations, and may likewise include dividends from national banking associations located without the state on condition that it also includes dividends from foreign corporations, but at no higher rate than is imposed on dividends from such other corporations.

2. The shares of any national banking association owned by non-residents of any state, shall be taxed by the taxing district or by the state where the association is located and not elsewhere; and such association shall make return of such shares and pay the tax thereon as agent of such non-resident shareholders.

3. Nothing herein shall be construed to exempt the real property of national banking associations from taxation in any state or in any sub-division thereof, to the same extent according to its value, as other real property is taxed.

4. The second proviso in paragraph (b) of sub-section (1) shall not be applicable, nor shall a specific tax on the shares of a national banking association or tax on or according to or measured by the net income of such association be assessed hereafter, in any state which does not require the financial, mercantile, manufacturing and business corporations with which a comparison is required hereunder to file annually with the appropriate state officials, statements under oath showing, in the case of each such corporation, the net income and the net profits as set forth in the last preceding income tax return to the Federal Government in the statement therein of reconciliation of net income, and the total taxes on real property and the total taxes other than on real property imposed on such corporation by authority of such state during the period to which such return relates, and does not also annually compile and publish statistics showing the respective aggregates of net income and net profits reported by, and of such taxes imposed upon (1) national banking associations (2) all other financial corporations (3) mercantile, manufacturing and business corporations. Such statistics shall be competent evidence of the facts therein contained; provided, however, that this sub-section shall not apply in any state which imposes a specific tax on the shares of national banking associations or a tax on or according to or measured by the net income of such associations at a fixed statutory rate, and imposes a tax on or according to or measured by net income on financial, mercantile, manufacturing and business corporations at the same rate; and provided also that in any state in which a tax on or according to or measured by income is imposed upon such other corporations by authority of such state, if such corporations are required to file returns showing the net income and the net profits and a statement of reconciliation of net income, a further statement from such corporations shall not be required, and the statistics may be derived from such returns and from the records of such state or the political subdivisions thereof with respect to taxes other than on real property imposed on such corporations.

5. The term "net profits" of a corporation or association as used in this section shall mean the net profits of such corporation or association as shown by its books before any adjustments are made therein, as required to be reported to the Federal Government in its corporation income tax return in the schedule thereof providing for the reconciliation of net income, plus all taxes which have been deducted in determining net income under said return. The term "aggregate of the net profits" shall mean only the total of the net profits of such corporations or associations reporting to the Federal or state government as the case may be.

NEW SPEED AND ACCURACY ON . . .

TRANSIT LETTERS

. . . IN THE LARGE OR SMALL BANK

Brownville National Bank

Brownville, Ohio, APRIL 15, 1930

THE NATIONAL BANK

CLEVELAND, OHIO

We enclose for collection and return items listed below.

ON WHOM DRAWN	AMOUNT	MAKER	NO	DATE	IN FAVOR OF	LAST ENDORSER
	0.-					
EXCHANGE NATL BANK	56.66	FOREMAN NATIONAL BANK	45691	4/1	JONES & JONES CO	GEORGE BRACKEN
CORN EXCHANGE BANK	12.10	FIRST NATIONAL BANK	76471	4/2	HARRY SIEPER	IRVING ELLIS
FEDERAL RESERVE BANK	250.00	HACKEYE NATIONAL BANK	83671	4/4	WALTER SCHMIDT	RAY SINCLAIR
FEDERAL RESERVE BANK	99.99	OLD NATIONAL BANK	65900	4/4	GREENBAUM CO.	LESLIE HARPER
	418.75.-					
	418.75.-					
DOUGLAS NATIONAL BANK	555.55	FOURTH STREET BANK	76391	4/5	JAMES SMITH CO	HACKLEY NAT
CONTINENTAL COML BK	655.55	FOURTH NATIONAL BANK	98256	4/7	HOMER	
IOWA NAT BANK	14.52	CITIZENS STATE BANK	76532	4/10	WALKER	
	1,644.37.-					

The illustrations show a complete and detailed transit letter giving full information about each check and an abbreviated form listing all checks by numbers. Both were written on a National Accounting Machine.

THE NATIONAL BANK

DAYTON, OHIO

TO

Your Transit Department

WE ENCLOSE FOR COLLECTION AND RETURNS ITEMS LISTED BELOW

DRAWEE	ENDORSER	AMOUNT
		0 *
41-7	1963	75.00
48-5	1912	100.00
79-2	981	50.00
24-9	152	95.34
44-77	G MANUS	530.28
11-43	9853	140.60
56-90	1ST NATL	160.66
12-34	4648	10.66
46-78	3535	751.00
12-34	6789	4,105.30
		6,018.84 *

The National Accounting Machine provides advantages on writing transit letters that are possible with no other machine.

Whether you use the numerical system or write complete and detailed information about each check this machine will do the work with the greatest speed and accuracy and at the lowest cost.

The same machine can be used for either single or two-on listing and can be used as an adding machine whenever desired. It is extremely easy in its operation.

The combination of standard typewriter keyboard and standard adding keyboard is an exclusive National feature and means much in bank work because employees are already familiar with standard keyboards.

Automatic totals, automatic tabulation, automatic carriage return, automatic punctuation and printing of ciphers and other distinctive features speed up operation and guard against error.

Our representative in your city will be glad to explain the advantages of this machine.

THE NATIONAL CASH REGISTER COMPANY

World's Outstanding Producer of Accounting Machines and Cash Registers

DAYTON, OHIO

The Condition of Business

Trends Pointing to Recovery Become More Pronounced. Production Has Been Held Down to Trade Demands. Retail Buying Shows Improvement. Banking Situation Continues Strong. Cheap Money Rates a Favorable Factor for Business.

SLOWLY but surely the underlying forces that make for either business prosperity or depression are orienting themselves in the direction of recovery. It may even be said that the majority of these basic factors are now headed in the right direction. Some lines are due to recover much more quickly than others, and a few are still on the down-grade, but a certain degree of irregularity in our highly diversified economic system is an old story and has been found as far back as the records go. The "business cycle" is made up of a multitude of minor cycles based on individual industries, or particular corporations which have grown so large as to become industries in themselves. Furthermore there is a surprising lack of uniformity in the timing of these minor cycles, and their waves of good or poor business do not always move with the tides of general business. Belief that the tide is now rising, nevertheless, is grounded on an examination of the fundamental factors, and is strengthened by the more optimistic feeling now held by leading executives in the industrial, merchandising, public utility and banking fields. Probably this more hopeful sentiment has not yet spread widely throughout the public at large for the reason that it is not so apparent on the surface as it is to those in touch with plans and policies for the future.

Production Corresponds to Demand

PRODUCTION has been held down this year so that it closely corresponds with actual demand throughout the list of major industries with very few exceptions, and these cases are usually explained by some special circumstances, such as the overproduction of petroleum which is now being checked, the accumulation of lumber because of excess capacity combined with the building slump, or the virtual suspension of copper buying until the deadlock on prices was broken.

Retail trade this year has been going along fairly well. People must continue to buy a certain amount of food every day, whether the stock market is up or down, and their clothes and shoes will not last forever, regardless of whether one or all of the "business indices" are above or below normal. Houses must be painted and kept in repair, household goods and supplies must be replenished and gasoline and tires purchased for the old car even though they do not buy a new one.

The business outlook at present, if one were to attempt to summarize the expressed opinions of those who are entitled to be regarded as authorities, is that little tangible improvement has been made thus far, and that business is still dragging along the bottom. The date of the expected revival has had to be postponed a few weeks, but it should be very clearly apparent this fall and we should go into the new year with things generally on a decided up-grade.

No Expectation of a Boom

THEREFORE the year 1930 will on the whole be quite subnormal, but 1931 ought to be a good year. This, however, does not mean a "boom year," but merely an ordinarily good business year, which means that keen competition, price-cutting, commercial failures, depressed industries, etc., will still be with us, as always. Few people, in fact, even expect any real business boom for some time to come. Conditions in the present depression are somewhat different from those of 1921, when there were two outstanding factors to pull business back to normal and above,—namely, a huge building construction program to make good the shortage created in wartime, and a tremendous expansion of the motor industry.

Those two factors are not now present, for there is no general shortage of housing or commercial building facilities and no one expects the motor industry to experience the same expansion in the next ten years that was witnessed in the last decade. People are casting about for some new factor that will not only pull us out but lead up to still greater prosperity, but if it has been discovered it is not yet common knowledge. Something of this nature in the aviation industry is hoped for, but of course the development of aviation, though certain and rapid, can never assume the importance of the motor industry among the public.

It may be that over the next five or ten years business in this country will be on a "replacement basis" instead of being carried forward by unusual expansion in one or two particular lines, and this would by no means indicate that a very satisfactory volume of business cannot come merely from the replacement of our present goods coupled with normal growth. Such a future, however, holds little promise of a major boom, with all the fireworks that accompanies excessive expansion.

Cheap Money a Favorable Factor

DURING the last month the banking situation has not been featured by any very important developments and money rates have continued easy. There is no need to go into the individual rates, for commercial paper, call money, bankers' acceptances and all other classes of accommodation testify as to the sufficiency of funds and when measured against those prevailing a year ago do not give a comparison but rather a striking contrast. There is no great interest in the money market at the present time, for money is cheap because few people want it.

The decline in the amount of commercial loans outstanding over the last three months is usually regarded as a reflection of the slack demand on the part of business concerns for funds to be used in commercial enterprise, although it may be accounted for in part by the unusually large offerings of new bond issues, most of which were for new capital rather than for refunding, and the proceeds of such financing is always used to a considerable extent in paying off bank loans which may have been running for periods of several months or longer awaiting favorable conditions in the bond market.

It is therefore important to bear in mind that the amount of commercial loans outstanding is not an infallible barometer of general business activity even though it merits careful watching. Certainly no one would say that it is a bad omen for business when corporations are enabled to sell long term bonds at cheap rates and thereby provide funds with which to pay off their current bank borrowings and for their expansion programs.

The movement of secured loans as an indicator of stockmarket activity must also be accepted with reservations. Just now the statement of the weekly report-

ing member banks of the Federal Reserve System shows secured loans $1,200,000,000 in excess of the figure at the end of May, 1929, but this does not so much reflect great activity in speculation as the fact that a large part of brokers' requirements are now being supplied through the banks instead of by loans made directly by corporations, etc., and also that many investors and traders have transferred their accounts from brokerage houses into their own banks. Total brokers' loans made by and through New York City banks now stand around $4,000,000,000 whereas a year ago they were $5,500,000,000.

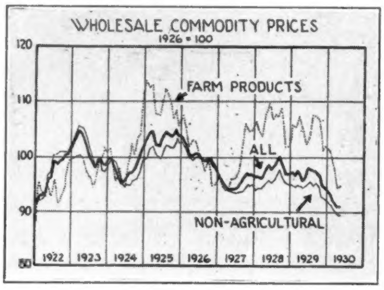
An examination of the consolidated statement of the Federal Reserve System shows a remarkably strong position, with bills counted for member banks amounting to only around $200,000,000 contrasted with $1,000,000,000 last year. Heavy imports of gold since January have been a factor enabling member banks to liquidate their rediscounts without drawing upon their own reserve balances.

The Trend of Prices

On the accompanying chart is shown the drastic decline that has occurred in general commodity prices during the past twelve months, although there has been a general downward movement for the past five years. The index of the Bureau of Labor covering 550 commodities at wholesale, stands at 90.7 for April, the latest month available, compared with 90.8 in March and 96.8 in April, 1929. During the month the group index for farm products moved up slightly, from 94.7 to 95.8, while the average for all non-agricultural groups declined from 89.8 to 89.4. The index uses the year 1926 as a base equaling 100.

A great deal of the agitation recently over the fall in the prices of farm products appears to have been based on the fact that, as a group, they declined by a greater percentage than did non-agricultural prices. This is quite true, but it should also be remembered that in the upward movement starting in 1927 farm products had a much greater advance than did other commodities. Furthermore, the basic raw materials reflect market changes more quickly than do the much greater number of less important commodities which have only a limited market and which may have in their cost a much greater labor factor. It is not to be expected that a decline in raw material prices can be immediately translated into a deflation of wages and a corresponding decrease all along the line to the point where it enters into the cost of living of the average consumer.

The Bureau of Labor and other indices apparently indicate that the present decline in commodity prices has flat-



Bureau of Labor Index 1926=100

tened out and this is naturally a reassuring signal to business, yet a still more bullish interpretation may be had if the action of certain individual commodities is observed. During the month of May, zinc, lead and tin firmed up after their severe decline. The slash in copper from eighteen cents to fourteen and later to twelve and a half cents brought such a rush of buying into the market that the industry booked orders for more copper in May than in any previous month in history. Both domestic and foreign buyers shared in the movement, and the fact that a large part of the sales were for near-term delivery is taken as confirmation of previous reports that users of the metal had allowed their stocks to decline to a minimum. It is the customary practice in making contracts for the sale of copper to definitely set the delivery dates, and if the shipment is not taken up at the specified time the purchaser must pay interest thereon. For this reason "unfilled orders" have somewhat more significance than in the steel and certain other industries, where the orders on the books are subject to shipment only against specifications, when and if issued. What has happened in the copper industry may very likely prove true in many other lines, once buyers become convinced that prices have reached the bottom and that the general business outlook is sufficiently satisfactory to warrant the replenishing of depleted stocks. Conservative inventory practices have been pursued in recent months not only by manufacturers but by the retail trade as well, and it requires no great use of the imagination to see how quickly an improvement in demand from the ultimate consumer w'll pull the slack out of an industry all along the line.

Hide prices, a rather sensitive barometer, turned upward in May as did wheat, while corn and oats held their own. Hogs were steady and steers slightly higher. Cotton, wool and silk held steady. Crude petroleum has been advanced slightly, and would have been marked up further except for the danger of stimulating output at a time when the problem of overproduction appears to be nearing solution; gasoline prices were marked up moderately in the West and the average tank-wagon price in representative cities throughout the country is fractionally higher than a year ago.

The Movement of Merchandise

In an effort to measure the movement of merchandise along the channels of wholesale and retail trade, as distinguished from production by manufacturers, a collection of statistics has been gotten together from a considerable number of diverse but reliable sources and is presented in the following table. In some cases the actual figures are given, in other cases the relatives based on index numbers, but either will enable the reader to form a comparison between the data for the latest month available in 1930 (usually April) and the corresponding month in 1929:

Commodity Movements
Latest Month Available

	1929	1930
Apple shipments, car-lots..	2,920	3,610
Butter consump., thous. lbs.	158,000	162,000
Cattle receipts, thous.....	1,450	1,547
Hog receipts, thous........	3,436	3,294
Lamb and mut. rects., thous.	1,527	2,151
Wool receipts, thous. lbs...	6,440	8,500
Cocoa shipments, tons.....	17,670	13,950
Tea imports, thous. lbs....	5,470	6,400
Tobacco exports, thous. lbs.	30,670	54,890
Imports, veg. oils, thous. lbs.	85,330	84,600
Coffee clearances, thous. bags	1,759	1,542
Cotton consumption, bales.	631,700	532,400
Cotton exports, bales......	454,000	350,000
Silk imports, bales........	47,760	37,520
Burlap imports, thous. lbs.	52,550	52,850
Str. steel shipments, tons..	277,000	276,000
Copper shipments, tons....	99,050	50,020
Copper exports, tons.......	57,710	29,200
Lead shipments, tons......	72,700	65,050
Zinc production, tons......	54,650	43,080
Steel production, tons daily.	189,900	159,400
Auto. sales—Gen. Motors..	173,200	142,000
Accessory ship.—index.....	732.0	548.0
Farm imp. shipments—index	156.3	203.7
Cement ship., thous. bbl....	13,230	13,390
Freight car deliveries......	3,599	6,144
Machine tool ship.—index..	329.0	227.0
Plate glass prod., thous. ft.	13,140	10,420
Electric motors billed, dol.	704,000	942,000
Furniture ship.—relative...	64,530	54,200
Enamelled ware ship., doz..	449,400	341,400
Sulph. acid exports, mill. lbs.	705	336
Potash imports, tons......	22,120	39,900
Rubber imports, tons......	54,170	49,930
Newsprint prod., thous. lbs.	341	338
Chain store sales..........	$250,883	$266,540

It will be seen from this heterogeneous list that the falling off has been much greater in some commodities than in others, and that a few are actually running ahead of a year ago. The general showing certainly would not support the assertions loosely made but widely circulated that business in the United States is practically at a standstill. These shipments call for a tremendous sum to be paid in settlement and thus kept in circulation, and represent for the most part purchases made with the expectation of reselling at a profit, and not merely the production for stock by manufacturers who hope for better times and want to keep their plants busy in the meanwhile.

Bond Market Comes Back

During the last month the bond market has further demonstrated its recuperation by the manner in which

(*Continued on page* 1195)

Gold Follows the Foreign Loans

(*Continued from page* 1112)

6. It would reduce the peril of a sudden withdrawal of short-term foreign funds in this country—France's, say.

7. It would strengthen the diplomatic power of our reserve banks in bargaining for the cooperation of central banks abroad.

8. It would make possible separate reserve board policies as regards foreign credit and domestic credit, a thing heretofore impossible.

9. It would tend to protect our foreign customers from such wildly fluctuating interest rates as we have seen in the past eighteen months.

10. It would enable the reserve banks to regulate "reserve credit outstanding" by a third open-market method; since they could buy and sell foreign exchange at New York, or they could conduct the operations abroad as transactions in free gold. Conditions might arise when this third method would be more profitable, or otherwise more desirable, than open-market operations in either acceptances or Government obligations.

Under this plan, when foreign exchange becomes cheap because American long-term lending has slackened, the Federal reserve banks would buy foreign exchange — thereby supplementing reduced long-term capital exports by increased exports of short-term capital. Conversely, when America is on one of its orgies of long-term lending, as in 1927-1928, foreign exchange would rise to a premium, and the reserve banks would sell some of their foreign exchange holdings—thereby reducing by so much the excessive outflow of American capital. The mechanism would work so automatically that it could hardly be bungled.

In some years its stabilizing influence upon American exports of capital might overshadow the other advantages of the plan. It is known that at least a few of our leading financial experts approve the plan; moreover Congressman Louis T. McFadden, chairman of the Committee on Banking and Currency and a critic of many of the international activities of the Federal reserve banks, is outspoken in its favor.

The *Journal of Commerce* of March 1 and the *New York Times* of March 3 reported that the New York Federal Reserve Bank had begun to purchase sterling bills, and it was stated that the governor of the New York Federal Reserve Bank had gone to Europe, partly to arrange the details of acquiring additional foreign-exchange holdings. This looked like constructive action promptly taken, but not much seems to have come from it. Probably our reserve officials have encountered the opposition of foreign central banks; for in this period of world-wide liquidation, our purchases of foreign exchange would flood foreign markets with additional short-term funds. This is only a temporary obstacle, however. We can still hope for a time when some of the international mischief of our inveterate gambling in securities will be prevented.

Association Work

(*Continued from page* 1114)

in forty-two states during the year, with a total attendance of 44,765.

More Trust Departments

JOHN W. BARTON, of Minneapolis, President of the National Bank Division, reported that progress was being made in the development of trust departments by national banks.

"In the volume of trust work done," he said, "and in the quickened interest displayed in the technique of trust department management, there was splendid advancement. Slightly more than 2400 national banks hold trust powers and 75 per cent of them are exercising those powers. The assets under administration last year showed an increase of $1,000,000,000. Through participation in the Mid-Continent Trust Conference, and assistance to various individual members the division has contributed somewhat to the growth of trust business in national banks."

The Council, at the suggestion of Mr. Barton, referred to the Economic Policy Commission for study and report the question of uniformity in bank legislation. In submitting the matter Mr. Barton called attention to the fact that the laws under which the banking business of the country is operated and supervised are derived from forty-nine sources, that of the Federal Government and the states.

The report of the Committee on Bankruptcy, submitted by the chairman, M. R. Sturtevant, of St. Louis, Mo., expressed amazement at the discovery that bankruptcy cases throughout the country, but especially in larger cities, were frequently handled in what might be called a criminal manner. He said the committee had found that in the past five years the total loss to creditors in bankruptcy cases exceeded $4,000,000,000.

The Council approved a motion suggested by Mr. Kent providing that the Administrative Committee should consider the feasibility of obtaining data covering the question of Government operation of industry.

R. S. Hecht, of New Orleans, as Chairman of the Economic Policy Commission, presented a report which was divided into studies of three major subjects: (1) the development of group, chain and branch banking, (2) the proposals for distributing a larger share of Federal reserve bank earnings to member banks and (3) the question of liberalizing the rules governing paper eligible for rediscount at Federal reserve banks. The report is published in three separate parts elsewhere in this issue of the JOURNAL.

Thornton Cooke, of Kansas City, Missouri, Chairman of the Com-

mittee on Taxation, said that the committee had agreed upon income as a yardstick for taxation, believing that "it would be correct in principle and equitable in practice if state and local taxation of national bank shares on the one hand and of the shares or personal property of mercantile, manufacturing and business corporations on the other, absorbed the same proportion of net profits." He went on to say that if financial corporations, finance companies, building and loan associations, savings and loan associations should be taxed on their shares, the committee would be content to let bank taxation rest on shares also.

Col. William G. Edens of Chicago, Vice-Chairman of the Committee on Public Relations, described the growth of the JOURNAL in circulation and revenue. The publicity department, he said, was issuing from 200 to 250 news releases, comprising annually from 300,000 to 400,000 words, to the press each year.

New Forgery Bonds

W. F. KEYSER of Sedalia, Mo., Chairman of the Committee on Insurance, said that the committee had resumed negotiations with the committee of the Surety Association of America with reference to revising both the limited and blanket forms of bankers forgery bonds. He described changes and improvements made in these forms but reiterated that "neither the new limited nor blanket forgery bond gives coverage against losses sustained on checks drawn on other banks and bearing the payee's forged indorsement unless the payee is a depositor of the insured bank. Forgeries of depositors' indorsements are covered in the blanket form but not in the limited form."

Rome C. Stephenson of South Bend, Ind., Chairman of the Finance Committee, described a new contract between the Association and the Bankers Trust Company for handling, issuing and selling Traveler's Cheques. A motion to approve the new form was adopted.

Reports for the committees on Public Education, Foundation Trustees and Fiftieth Anniversary were submitted by J. H. Puelicher of Milwaukee. He said that $474,354.27 of the $500,000 contemplated for the Foundation, had been received, $4,125.10 remained on pledges and a balance of $23,800.32 was still to be raised. The last sum was divided among the states of Massachusetts, South Carolina, Kentucky, Iowa and Missouri. He summarized progress in public education work and expressed a belief that the most notable advance had been made through the use of radio.

The Membership

CHAIRMAN C. E. McCUTCHEN of Wichita Falls, Texas, reported for the Membership Committee. He said

that membership had decreased 306 between March 31, 1929 and March 31, 1930, the total now being 19,564. "During the fiscal year 1928 and 1929," he said, "there were 513 liquidated, merged and failed institutions, with 404 resigned and delinquent banks. The fiscal year 1929 and 1930 reveals 639 liquidated, merged and failed institutions, with 403 resigned and delinquent banks."

James E. Baum, manager of the Protective Department, reported on behalf of the Protective Committee, that the Association's agents had caused the arrest of 143 of the 236 bank criminals apprehended during the year. Seventy-six of these have been convicted, in addition to forty-nine others arrested in the previous year.

The report of the Federal Legislative Council, presented by the Chairman, Harold K. Downing of Troy, N. Y., discussed specifically more than a dozen bills ranging over a wide area in subject matter. He said that bills amending the Federal Reserve Act relative to the distribution of earnings to member banks have been introduced but that the committee would await definite action by the Association before taking any action.

E. A. Onthank of Fitchburg, Mass., Chairman of the State Legislative Council, summarized the results of efforts by the Council in cooperation with state bankers associations with reference to the passage of a uniform bank collection code, a uniform fiduciaries act and a uniform bills-of-lading act. The report calls attention to the fact that the committee's activities were limited by the infrequency of state legislative sessions during the period covered.

The Executive Council adopted a resolution presented by Mr. Hazlewood, stating that the Council approved and favored "the examination by the constituted authorities of all investment, security and bank stock holding companies in which member banks' capital or deposit funds are invested."

The entertainment program was particularly successful. Mrs. John G. Lonsdale was chairman of the Ladies' Reception Committee. Mrs. Harry J. Haas and Mrs. F. N. Shepherd assisted her. Thomas B. McAdams was chairman of the Golf Committee and awarded the prizes at the Family Dinner. The program included a song service by the negro chorus of Hampton Institute, a garden party, dancing every night, motion pictures, trips to Fortress Monroe, Yorktown, Jamestown and Williamsburg. There were concerts by the hotel orchestra and the Twelfth Regiment Band, a trip to Langley Field and a specially arranged visit to the airplane carrier, Lexington, which happened to be anchored in Hampton Roads.

Preparing for the Account Analysis

(*Continued from page* 1142)

standing at any time. Where the primary purpose of the float record is to disclose the true average balance for interest computing purposes, the method which gives only the average float, being simpler in many cases, is the usual one. When a comptometer is used, the operator depresses the amount of each item (or total) as many times as that item (or total) will be days outstanding. The total so obtained is then recorded on that depositor's single-column float record; his monthly total divided by the number of days gives the average float.

In banks where highly accurate analysis is planned, and where it is desired to prevent withdrawals from uncollected balances, a lengthier form of float record is necessary. A convenient form of this type that is widely used is the four-column deduction sheet (Fig. 3). This sheet affords the quickest and simplest method of obtaining the total outstanding at any one time, but as there is more pencil work there is a tendency to record amounts in units of one hundred, impairing the accuracy. A three-day item or total must be jotted down three times, a four-day total four times, etc., but the float of the moment is seen at a glance. This sheet, then, is recommended where the float of the moment is of primary importance.

Another float sheet, on which it is necessary to jot down a total only once, and therefore permits accuracy to the nearest ten or even to the dollar, provides eight or nine columns to cover the number of days certain totals may be outstanding.

The total outstanding at any time may be obtained from such a sheet by drawing a diagonal line from the one-day column of the previous day to the eight-day column of the eighth day previous; total of all items below the diagonal being the float of the moment. When the average float is to be found, the practice is to multiply the total of the two-day column by two, the three-day column by three, etc., accumulate these results, and divide by the number of days in the month. This sheet is convenient where the float of the moment is needed occasionally, but not too frequently, and where the average float figures are used for reducing "interest paid" or for charging interest on net overdrafts. Either of these forms provides the "average float" needed in account analysis.

Data for Float Sheets

THE acquiring of the data to be recorded on the float sheets presents another problem. Perhaps the customary method is to require the depositor to describe out-of-town items, by A. B. A. number, on the deposit slip; or for the bank to supply this description within the bank as the deposit moves to the proof department.

In a great many banks, however, it may be impractical to demand that the depositor describe all items, and yet there is a desire to avoid delaying the deposits on their way to be proved and distributed. One solution is to indicate the desired information on the proof sheet or batch sheet, rather than on the deposit slip. This method is particularly acceptable as it requires little extra time and is accurate to the penny. Each deposit to be analyzed as it comes to the proof department is sorted separately and proved. The sorting is the customary sorting to departments, except that at the same time the transit items are sorted according to number of days float. If the transit items are then run first, a transfer total can be taken of each float-group and a sub-grand taken to indicate total out-of-town items, amount to be charged to the transit department. The analyst then has all the data required from the deposit in a nutshell: float, according to days; and number of items, according to classification.

"Recapping" the Daily Records

ONE of the standard monthly analysis sheets, for "recapping" the daily records, is illustrated in Fig. 4. The number of items handled is taken from the deposit records with the exception of the "on us" items which should be the number of checks the customer draws, not the number of "on us" checks he deposits. Some banks claim that the cost of handling "on us" checks should be divided by two and account cost figured from both the checks drawn and checks deposited. It is evident that the same check would often be counted twice, drawn by one customer, and deposited by another; therefore the full cost could not be used for both types of "on us" checks handled for a customer. Inasmuch as the ledger and statement work constitutes the greater share of "on us" expense, and the customer, by accepting "on us" checks, is saving the bank the trouble of cashing the items over the counter, it seems that the fair procedure is to figure cost from only the checks that the customer draws.

To Determine Loss

A CONVENIENT appendix to the standard form of monthly analysis sheet would be the item "balance necessary," inasmuch as the analysis department is called upon to furnish this figure sooner or later. To quickly calculate the additional balance necessary to cover a loss, multiply the loss by the proper key number shown in the following table. Where the loss is caused by a net overdraft due to excessive float, instead of multiplying the loss by the key number, the difference between cost of activity and exchange recovered is multiplied by the key and this result is added to the float to obtain balance desired. Where an account shows a profit, a key somewhat less (about 25 points less) is used to find by how much the average balance exceeds the necessary balance:

Current Interest, Per Cent	Reserve Deduction, Per Cent	Key Number
4	20	440
4	15	415
4	10	390
5	20	346
5	15	320
5	10	300
6	20	277
6	15	259
6	10	243

Based on 360 days and loan cost of .0005, the figures are approximate for other loaning cost, but close enough for ordinary use.

The value of knowing the minimum balance necessary is especially apparent where detailed analysis of an account reveals the fact that little change of activity is experienced from month to month. On such an account no further analysis is necessary other than a monthly record of average balance carried and an occasional inspection of float percentages and activity to ascertain that no great change has been made.

Productiveness as the Test for Rediscount

(*Continued from page* 1122)

proportion of what they have at the Federal reserve banks. There seems to be ample leeway in case of need. These general figures however are deceptive since they do not reveal the important fact that these ample supplies are not at all evenly distributed among the banks. It is an abundance in other words that is not enjoyed by all.

Due to general economic conditions that obtain in the rural districts, the country state banks appear to be especially deficent in eligible paper. Federal reserve reports show that country state bank members of the Federal Reserve System in December held almost 9 per cent of the total loans of all member banks but they held less than 6 per cent of the eligible paper. Only about 11 per cent of their loans were of this class. The city state bank members representing about 33 per cent of the total loans of member banks held almost 27 per cent of the eligible paper. Over 13 per cent of their loans were of this class. The national banks as a whole are in better position in this respect than state banks. The nationals held about 58 per cent of the total loans and over 67 per cent of the eligible paper. The proportion of national bank loans classed as eligible was 19.5 per cent.

Chain Stores a Factor

THIS is a spotty condition that is further accentuated in respect to many particular localities and individual banks. The gradual disappearance of the middleman has been especially marked in some places. Also the extension of chain stores into hundreds of small towns has transferred large volumes of the financing of commercial business away from them to the head offices in the larger cities and there it is probably done by the flotation of new securities instead of bank loans. The city bank often has had to keep its money busy in investments or collateral loans. These are conditions over which the banker has no control but from which he has suffered severely.

The facts seem to indicate therefore that while member banks as a whole appear to have an ample volume of eligible paper and securities, an uneven distribution has been created and while the stronger banks have an excess supply many banks especially in the country but sometimes in the cities as well are in a much weaker position in this respect. The foregoing facts we believe indicate the source of the demand for broadening the eligibility rules and also present a large measure of justification for this demand.

Not a Sure Cure

WE question, however, whether the sound remedy is to be found in easier eligibility. Specifically it has been suggested that the rules be broadened to include such other credit instruments as finance company paper arising from installment selling, municipal securities, and railroad bonds, so that banks shall have wider avenues of access to the Federal reserve banks from which many of them are almost disfranchised by the present restrictions.

The argument made in favor of railroad bonds and municipal issues is that they are almost as good as Federals from the point of view of security. For finance company paper it is argued that this reflects a large volume of actual trade evidenced by the underlying installment notes and that the endorsements of sound, well-managed, discriminating finance corporations specializing in this type of business insure the safety of this class of paper.

In this connection it is pertinent to consider for a moment the economic theory back of the present rules of

eligibility. The theory is that the paper of the designated character is fundamentally sound since it is created by responsible bank customers engaged in productive enterprise and is further reinforced by a bank's endorsement; that the volume of this type of paper rises and falls in accordance with seasonal changes in business and with the longer business cycles; and that it is inherently liquid both in respect to maturity and to the self-liquidating character of the transactions underlying it which involve the production and distribution of goods, the proceeds of whose sale at each turnover supply the funds to pay off the original notes.

Necessary Qualifications

ELIGIBLE paper therefore, so far as it serves member banks to obtain currency or to expand deposits created by commercial loans to customers tends to keep the expansion and contraction of credit and currency in step with the rise and fall of current business activities.

Neither railroad bonds, municipal issues, nor finance company installment paper quite qualify under this theory as classes of credit instruments suitable for eligibility. As to railroad bonds and municipal issues it may be true that as collateral security they are almost as good as Federals but Federal securities themselves are distinctly an anomaly as a basis for loans at the Federal reserve banks. They were admitted only as a war finance measure. They do not tend to keep member borrowing coordinated with the expansion and contraction of trade.

Not Productive

AS to installment paper it must be remembered that it represents consumer credit that is not based on productive transactions, but is wholly dependent upon extraneous factors for its liquidations such as the ability of the purchaser of the goods involved to hold his job and make his payments out of wages. The value of the underlying goods themselves rapidly disappears through consumption or depreciation. This is in distinct contrast with the notes covered by the present rules for eligibility which represent producer, not consumer, credit and are strictly self-liquidating out of the increased value produced by the underlying commodities and transactions.

Our feeling therefore in respect to these proposals for admitting certain other types to eligibility is that such action may tend to make our reserve credit structure less liquid, throw its workings out of step with fundamental business changes, and also increase the task of preventing the Federal Reserve System from being employed as a facility to inflation. We believe this latter point is especially important. The increase in credit which these added instruments would facilitate would not necessarily reflect and respond to the enlarged productive requirements of commerce and industry for supplies of currency and credit at going price levels. They would rather be liable to tend to create easy money in advance of those requirements and thus stimulate over-trading, rising prices and finally over-production.

They would tend to create a volume of credit that would not be automatically extinguished after it had served its designated function. We feel that the original impulse for credit expansion should come not from easy money but from actual increased consumer demand which is the channel along which the present rules tend to guide our credit economy.

We feel also that there are important changes developing in credit conditions which will increase the supply of paper eligible under the present rules. For instance, we cited that in September, 1929, the volume of open market commercial paper outstanding in New York

had fallen to only $265,000,000. Since then there has been a steady improvement in the commercial paper market and in March the supply was reported at $529,000,000, a gain of $264,000,000 or virtually 100 per cent in only six months. We find indications also that many corporations are returning to the practice of financing their current operations by means of bank loans instead of by the issue of securities.

We do not mean to minimize the seriousness of this problem nor the disadvantages under which it has placed many banks, especially in the country districts, but we do feel that there are serious disadvantages involved in the proposal to set up an easier basis of access to Federal reserve bank credit. We believe such action at this time would be hasty and that time should be allowed to show whether natural forces are not at work which will within a reasonably short time correct the present situation.

We are not prepared to recommend that the Council go on record against broadening the rules for rediscount, but we do suggest that the subject be given further study before any stand is taken.

Safer Brakes

(*Continued from page* 1137)

have ample gold reserves, and because we have a Federal Reserve System that stands ready to help us in emergencies, we are a little, if not too much inclined to depend on our ultimate power to pull ourselves out of difficulties, and not to exert our utmost efforts to avoid these difficulties. Prior to the establishment of the Federal Reserve System the great metropolitan banks were the last resort of the country's banking system; on them rested the ultimate responsibility for avoiding catastrophe, and though these bankers were not always able to avoid it, they were never entirely free from the feeling that it was their duty to so conduct their own affairs as not to endanger the financial fabric of the country. I fear that to some extent this feeling of joint responsibility has relaxed as the result in part of confidence that the Federal Reserve System is ready to stand by in the hour of need. The banks still feel the responsibility to their stockholders and their depositors, but when it comes to responsibility to the country at large there is a tendency to "let George do it."

Perform Public Function

YET I am convinced that to an increasing, rather than a diminishing, extent the great key banks have a general public responsibility, less direct but no less binding than their duty to their own depositors and proprietors. A bank may know that its security loans are perfectly safe and can be liquidated at any time, and yet it may recognize that too rapid growth in these loans endangers the stability of the nation's business. The bank itself may not be extending loans to the market for its own account, but it may be the agent for correspondents, banks and others, who may be pouring funds in dangerous volume into the market. A bank may not be indebted to the reserve bank except occasionally and for short periods at a time, but it may be a purchaser of Federal funds from other banks, and may be aware that in the aggregate there is a diversion of reserve bank credit to speculative uses.

Let such a bank remember that brokers' loans, and security loans in general, are safe only because there is an instant market for the collateral, that large sales of the collateral, though they may not impair the solvency of a particular bank, result in a drop in the value of the collateral back of more than one-half of the bank credit outstanding in this country, and that there is no telling when such a drop may terminate and what catastrophe may follow in its wake. Let such a bank remember also

that the resources of the Federal Reserve System are not inexhaustible; that another three weeks like those that occurred last autumn may come at a time when these resources will be more nearly used up, and that absolute security and confidence can be obtained only by so conducting the financial affairs of the nation as to prevent violent expansions and contractions rather than merely to alleviate their consequences. One should not neglect to build a fire-proof structure, nor to take precautions against careless handling of inflammable material merely because one has ample fire insurance and effective fire-fighting apparatus. One should not expose oneself and one's neighbors to the dangers of germs simply because one has a trusty antitoxin.

Enlightened Self-Interest

IN practical and concrete language this means that bankers have a responsibility beyond their own balance sheets, for the general course of events; that we must look beyond the safety of the collateral offered us for a loan, to the safety of the aggregate volume of collateral that we know is being offered for loans at all the banks; that when we see an unhealthy development getting under way we may not only protect our own immediate institutions, but must take a broader view and act with reference to the interests of the entire community. And this is not philanthropy nor even public spirit, though we can well afford to cultivate a public spirit, but merely enlightened self-interest. When a collapse occurs we all suffer in loss of business, even though we may not have to write off large losses on account of bad loans. The banker profits from general prosperity and suffers from general depression, and he can, therefore, reconcile a course of action taken with a view to the preservation of general business stability with the most hard-boiled attitude toward life that some of us like to boast of in public.

In other countries, where banking development has been longer, and banking concentration has proceeded farther, certain methods of control have been developed. A customer in England is not granted unlimited credit on the basis of security offered as collateral; he is granted a line of credit in accordance with his credit standing and the requirements of his business, and he cannot easily exceed that line no matter how much collateral he may be able to present. I am not prepared to recommend to you this or any other specific course of action, but I do feel justified in calling your attention to our joint responsibilities and to suggest that what we need is cooperative action in the development of sound banking tradition, which alone will give assurance to the country of a lasting stability of its financial organization.

Cooperation Essential

THE Federal Reserve System does not consist of a board at Washington and twelve regional banks. It consists of these and the member banks. Its greatest success depends upon the cooperation of all these units and upon the understanding and sympathetic support of non-member banks. The system rests primarily upon cooperation. Its most far-seeing and important policies can be largely nullified by lack of cooperation. Its passing lines of practice or judgment can be best connected by the counsel and support of its constituent elements, introducing not alone banker thought but the combined judgment of the skilled forces of the business community. As the system offers cooperation, so, too, does it seek cooperation. It wants and needs banker cooperation in unstinted measure.

I believe that when our banking machinery develops faults, they can be corrected from within the profession far better than from without, and it is the duty of the profession to correct them.

How Oregon Bankers and Farmers Help Each Other

(Continued from page 1129)

six counties. The agricultural programs adopted at the county economic conferences have been printed in bulletin form. Each deals extensively and comprehensively with the situation in the respective counties.

"In our analysis of facts for use in county conferences, we found one county producing 34,000 tons less legume hay and 34,000 tons less succulent feed than it required for the proper feeding of its dairy animals. This county has 31,000 acres in grain hay while it has only 4300 acres in clover and 2800 in other legume hay. It has 260 acres in alfalfa, whereas the head of our farm crops department says that 10,000 acres in the county would grow alfalfa. In addition to the county conferences three commodity conferences have been held dealing respectively with wheat, prunes and the dairy industry.

"Summarizing, there have been a total of twenty-six economic conferences held in the state during the past six years, including one state conference, twenty county conferences, three commodity conferences and two regional or community conferences, each adopting a program of recommendations subsequently printed in bulletin form along with supporting facts and information. Specialists in subject matter, representing various divisions of the college, experienced in conference procedure and statistical analysis, have given assistance to the respective committees. At least 4000 farmers and bankers, business and professional men interested in farming have taken part in the conferences. While the task upon which we have made this beginning is not complete, and while changing conditions will give rise to needed changes in the programs from time to time, yet it is true that our agricultural resources have been quite thoroughly surveyed from the standpoint of both production and marketing, and programs have been adopted that represent the combined judgment and experience of practical producers and professional agricultural workers.

How Bankers Aided

"WHAT part have the bankers of the state had in this undertaking? First of all, support of the economic conference method was included in the annual programs adopted by the agricultural committee of the Oregon Bankers Association and printed copies were sent to all banks of the state. The state bankers association held a special meeting at the college simultaneously with the state economic conference. In addition to the work of individual bankers on conference committees, the entire group listened to a discussion of the conference recommendations.

"An Oregon banker (incidentally the present president of the Oregon Bankers Association) was chairman of the finance committee of the wheat conference. Mr. Courtney, chairman of the agricultural committee of the Oregon Bankers Association, served on the finance committee of the dairy conference. Bankers served on the finance committee of the prune conference. The two banks of Grants Pass underwrote the expense of a farmer-business man banquet at the conclusion of the Josephine County economic conference where conference recommendations were summarized. This is merely typical of the part played by the bankers of the state. The agricultural committee of Oregon Bankers Association has supported the recommendations for abortion control by advising against loans on non-tested dairy cows and advising against clerking at auction sales where non-tested cows are sold.

"Obviously the best way to insure cooperation and coordination of effort is to place the emphasis on what

needs to be done. The part that each agency can best perform will then be apparent and much confusion may be avoided. I look forward hopefully to the time when carefully developed programs will take precedence over the disturbing and often disappointing attempts to introduce new industries by over-zealous and misguided promoters. It is an exceptional community that cannot be thrown into a state of excitement over a proposal to introduce a powdered milk plant, a new cannery, a sugar beet factory or a linen mill.

"Without hesitation all forces join hands in an attempt to revamp the agriculture of the community and pave the way for the new industry, conscientious in the faith that farmers as well as townsmen will be benefited. Under such circumstances one punctures balloons over-inflated with optimism at his peril. People do not thank you for spoiling their happy dreams. I do not mean that agriculture should remain static, or that there is no place for the introduction of new enterprises. Too frequently we have attempted their introduction hastily and have exaggerated the advantages, ignored the disadvantages, and left the farmer to find out by costly experience what might have been learned at little expense by well planned community demonstration trials conducted in cooperation with county agricultural agents.

Keep Step with Changes

"THERE must be some means provided for checking up on the progress made in putting our programs into operation, and for modifying these programs in conformance with changing conditions. Uncle Sam, with his far flung organization for assembling foreign and domestic information on supply, demand, and other material factors bearing upon future conditions, is rapidly perfecting a statistical or fact basis for a better stabilized agriculture. This finds its fullest expression in the annual agricultural outlook report of the Department of Agriculture, which may be expected to have a progressively greater influence upon the planting and breeding practices of American farmers.

"This Federal outlook report, however, must be localized and amplified in the respective states. When Uncle Sam, in effect, says, 'This is what is going on in the country as a whole and in the world at large, and these are our general recommendations,' we need to know what is going on in Oregon and its respective counties and what our recommendations should be. The agricultural staff of the college cooperating with the division of crop and livestock estimates of the United States bureau of economics is attempting this task. Our county agents are reporting on conditions and production trends in their respective counties.

"The different departments of the college and experiment station are analyzing the situation from a statewide standpoint. We issue a state outlook report in which this state and Federal information is combined. We distribute this outlook information widely to the people of the state. Under such a procedure our system of farming should be more stable and will develop gradually in conformance with well laid plans.

"This whole question of basing an agricultural program upon a survey of resources and analysis of conditions may have greater application in some regions than in others. Various states have developed different methods of procedure, each suited to conditions and needs.

"Our own experiences indicate how effectively the bankers can cooperate in this fundamental endeavor. As the entire nation seeks a solution of this perplexing problem the organized bankers of the country under the leadership of the Agricultural Commission of the American Bankers Association with its state committee and hundreds of county key bankers working in conjunction with county agents of the college extension forces can render a service of very great value. I suggest it as a supplement to rather than a substitute for the projects that have gained a place in banker-farmer programs throughout the country."

Research Eliminates Guesswork from Management

(*Continued from page* 1134)

tion lies in our change of social and economic life; the one-time independent community has now, through the medium of better transportation and communication, become in effect a part of the large city; and much of the financing that once came to the smaller banker now seeks support in the larger metropolis.

I have boundless faith in the future of American business and American banking. With such vast undeveloped resources, such unlimited possibilities in creative fields, we have only begun to unfold the vision that will be the heritage of coming generations. What the past half-century has witnessed will in no wise compare with progress fifty years hence. A momentary lull in industry, such as we recently have had, gives us added experience and wisdom, we hope, to face the battles of the future.

It was King Solomon who advised that "with all thy getting, get understanding." American banking and American business are drinking deep from the spring of knowledge and girding themselves for new and greater victories. Backed by a feeling of optimism and supreme confidence, and arming ourselves with the microscope of research and analysis, we march forth to meet fresh problems and to chart the seas for those who follow in our footsteps.

Chains, Groups and Branches

(*Continued from page* 1126)

economic advantage in both group and branch banking over independent unit banking. Some thought group banking was only a transitional stage, that branch banking was preferable and if it were permitted on an extensive enough scale they would change their groups over to branch systems. Others held that group banking was preferable as being more flexible and maintaining greater local independence and contact.

Combination of Both

SOME held that the ideal plan was a combination of the two with group bank units for localities strong enough to support complete banking institutions and with branch offices extending further out into the smaller places requiring banking services but not large enough to support complete banks. Several of these who advocated multiple banking declared that nevertheless they believed there would always be room for vigorous independent unit bank competitors.

The inquiry is now in the stage of gathering information as to the major issues and we do not feel that the situation calls for immediate action in this respect on the part of the Economic Policy Commission or the Association. The indications are that the real issue as to branch banking will not be joined for at least a year or two; at any rate not before the Annual Convention in the fall. It would therefore seem best to wait until then before attempting to discuss or formulate anything in the name of the Association along the line of a broad policy.

However as the result of testimony before the hearings, Chairman McFadden of the House Banking and Currency Committee introduced in the House, April 30, what he termed a bill for "emergency legislation," to control group banking developments. The terms of the bill are as follows:

"It shall be unlawful for any corporation, co-partnership, individual or trustee to purchase or otherwise to acquire more than 10 per centum of the shares of the capital stock of more than one member bank of the Federal Reserve System, whether state or national member, except after first obtaining the approval of the Comptroller of the Cur-

rency with respect to national banks and of the Federal Reserve Board with respect to state member banks. Any person or corporation violating this act shall be deemed guilty of a misdemeanor and shall upon conviction thereof in any district court of the United States be fined not more than $10,000."

Advices from Washington indicate that it is the intention of the committee to press for this legislation with the aim of maintaining the status quo until Congress has had a chance to decide what form of banking development should be provided for in a more permanent measure.

Meanwhile, it is the intention of the Economic Policy Commission to continue to develop its own studies in these questions, to watch carefully every move that is made and every bit of information that may develop in this connection and keep itself prepared to give the Association an unbiased and accurate statement of the facts of the case whenever that is desired. But in the meantime we do not hesitate to venture the opinion that the Association will, in the not distant future, have to modify the position it has taken in the branch banking problem although we do not believe that so-called "trade-area" branch banking is likely to gain the support of any large percentage of the banking fraternity.

Who Should Get Reserve Bank Earnings?

(*Continued from page* 1115)

The Federal Reserve Bank of Richmond has computed on the basis of the earning figures of the Federal reserve banks during the past six years a theoretical forecast of additional earnings that would be disbursed to member banks during the next six years under two plans that have been introduced in the Senate to give them larger participations. These computations are briefly summarized as follows:

1. The first plan, embodied in the Fletcher Bill, provides that earnings after present dividends and completion of 100 per cent surplus, should be distributed to the stockholder banks. If the earnings of each bank were distributed among its own members there would be no extra dividends in the Boston, New York, Philadelphia, Cleveland, Chicago and San Francisco districts during the next six years, but the other six Federal reserve banks would pay annual extras at the following rates: Richmond, 6.08 per cent; Atlanta, 4.09 per cent; St. Louis, 3.50 per cent; Minneapolis, 9.51 per cent; Kansas City, 5.48 per cent; Dallas, 4.83 per cent. If the earnings available for these extra dividends were pooled and paid out uniformly to all members in all districts each member would receive an average annual extra dividend of .78 per cent. Under this plan no franchise tax would be paid, $5,252,255 would be added to surplus each year and extra dividends amounting to $1,527,333 would be paid annually.

2. The second plan presented in the Glass Bill would provide that after present dividends one-half the remainder should be paid to member banks as an extra dividend with the residue going to surplus and franchise tax. The average annual extras would be as follows: Boston, 2.51 per cent; New York, .48 per cent; Philadelphia, 2.05 per cent; Cleveland, 2.09 per cent; Richmond, 3.26 per cent; Atlanta, 4.67 per cent; Chicago, 3.20 per cent; St. Louis, 2.02 per cent; Minneapolis, 4.75 per cent; Kansas City, 2.74 per cent; Dallas, 3.31 per cent; San Francisco, 1.87 per cent. If these extra funds were pooled the result would be an extra average annual dividend of 1.73 per cent for each member. Under this plan the system would pay an average franchise tax of $1,941,996 each year for the next six years, would add $1,432,323 to surplus and declare extra dividends amounting to $3,405,269.

The Richmond bank's analysis points out by way of individual concrete instances that a member bank having capital and surplus of $200,000 therefore holding Federal reserve bank stock amounting to $6,000 on which it is receiving $360 under the present 6 per

cent dividend arrangement would with the addition of each 1 per cent to the dividend rate receive an additional income of $60 a year. This could hardly be considered much of a relief for present member banks or much of an inducement for new members to come in. If each member bank will figure out for itself the dollar-and-cents gain it would enjoy we are confident it will be agreed that the gains are small as against the economic disadvantages which can be pointed out.

Against these proposals for larger distribution of earnings the chief argument seems to be that there is considerable danger lurking in any proposition that tends to turn the Federal reserve banks into institutions conducted in any sense with the idea of profit in view.

The fundamental value of the Federal reserve banks to the nation is based on their freedom to conduct their operations with no other motive than to serve as reserve strength in the banking structure and to employ their resources with the single-minded aim of helping to maintain such an adjustment of the volume of credit to the volume of business that all constructive needs for credit shall be met and no expansion beyond those needs shall be facilitated. In that conception there is no place for purely investment operations. The provisions of the Federal Reserve Act dealing with the earnings are so framed as to make the public welfare the whole consideration determining reserve bank policy.

Profits No Object

THE provisions for specifically limiting member banks to the fair return of 6 per cent, for creating ample surplus funds and for absorbing all amounts above these allocations in payments to the Government, were designed for the very purpose of removing the profit-making motive from Federal reserve policy. If the principle is now set up of making an attractive rate of return on the stock a lure for membership we might recede from that high purpose and give room for the temptation to conduct the banks with their policies conceivably tinged with motives other than those of pure reserve banking functions.

There is also the danger that if member banks had so direct an interest in the question of earnings the public would be more critical than ever of the entire banking fraternity whenever economic conditions would make it desirable to increase rediscount rates. The Federal Reserve Board would, under such circumstances, be even more reluctant than in the past to increase rates for fear of being subjected to the charge that extortionate rates were being made in order to earn greater dividends for the member banks. On the other hand the member banks themselves might later be dissatisfied if in times of very easy money the Federal reserve banks should in an effort to maintain their earnings become too active in open market operations and thus further cut interest rates for the entire country.

Compromise Preferable

WE are in full sympathy with the thought of making the Federal Reserve System more attractive to member banks but we do not feel that a wise measure for this end would be one tending to place undue emphasis upon earnings. We wholly agree with the proposition that has been brought forward that only 25 per cent of earnings that naturally accrue shall, after provisions for present dividends and additions to surplus have been taken care of, be paid to the Government. But as to what should be done with the remainder we find a great variety of views among the ablest leaders of the banking fraternity.

Investment Trusts

(*Continued from page* 1145)

little doubt that the degree of marketability is less than that of Consolidated Gas of New York, American Telephone, Union Carbide, General Electric, and the other leading industrial stocks.

Another cause for the limited inclusion of bank stocks in the portfolios of general management trusts would be that of the double liability imposed on the holders of bank stocks. This possibility is not of extreme importance, as the surpluses of the leading banks are in practically all cases as great or greater than the capital account.

Doubtless the two most important reasons for the limited holdings of bank stocks by general management trusts are those of the low ordinary yields and the lesser degree of marketability compared to industrial common stocks. The question of yield is important, as the majority of general management trusts have interest charges to meet on debentures and dividend requirements on preferred stocks, and such charges of about 6 per cent cannot be met from the average yield of 2.64 per cent obtainable from twenty-one bank stocks on March 13, 1930. Considering all the factors as to the holdings of bank stocks by general management investment trusts, the percentage of holdings may be considered as sufficiently high, on the average.

Certain Banks Favored

ALTHOUGH the holdings of bank stocks of several investment companies are not large in ratio to the resources of these companies, such holdings are concentrated in a few issues. For example, one company has less than 10 per cent of resources in bank stocks, but this 10 per cent is made up of 10,000 shares of one bank stock, 15,000 shares of another and over 3000 of a bank holding company. Another company with 3.1 per cent of the resources in bank stocks holds 15,000 shares of one issue. Another owns but 1 per cent in bank stocks, resulting from the holding of 1000 shares of a single issue. Another large combination investment company and holding company has minority control of one of the leading New York City banks through its holdings and that of its subsidiaries.

Several companies hold substantial blocks of stock of two of the leading bank holding companies. Another company, with slightly over 10 per cent of the resources in bank stocks, holds nearly 40,000 shares of a particular issue, also over 10,000 shares of another bank stock. Another case is that of a company with about 11 per cent of the resources in bank stocks, such holdings being concentrated in three issues. One of the specialized investment companies has nearly 7000 shares of a leading title company stock, and nearly 2000 shares of one of the leading bank stocks. It is evident then that, although on the average the holdings of bank stocks by investment companies are not high, there is a tendency for such holdings to consist of large blocks of a few securities.

Results of Concentration

TO this extent, such investment companies are departing from the classical principles of diversification and are tending to become holding companies with the possibility of a voice in the management of these banks, rather than having holdings of only a few hundred shares and having no interest in the affairs of management. However, of the fifty-four companies holding bank stocks, this concentration is only evident in twelve cases of the type just cited, including the specialized management type of trust.

Several interesting angles may be deduced from this survey. First, the fact that one-fourth of the companies did not include bank stocks in their portfolios, second, that several whose bank stock holdings were comparatively small concentrated such holdings in a few issues,

but, lastly, that the holdings of bank stocks, on the average, by general management investment companies are not of sufficient size to be considered as an unfavorable feature for the investment trust. Rather, such limited holdings indicate, on the average, that investment companies are following the principles of wide diversification which are one of the very cornerstones of their existence. If holdings of bank stocks were greater, investment trusts or investment companies would tend to become holding companies.

BANK STOCK HOLDINGS OF INVESTMENT TRUSTS

No. of Trusts	Resources of Trusts	Bank Stock Holdings — Amount 1928	Amount 1929	Per Cent of Total Resources 1928	Per Cent of Total Resources 1929
43	$1,387,700,000	....	$95,337,500	...	6.89
29	653,900,000	$28,698,800	42,191,500	5.8	6.5
72	2,041,600,000	....	137,529,000	...	*6.74

**Eliminating* 18 *trusts with no bank stocks in their portfolios, average per cent increased to* 8.8, *further eliminating* 6 *trusts with large percentages of bank stocks, average percentage of bank stock holdings of remaining* 48 *trusts reduced to* 4.79.

Convention Calendar

DATE 1930	STATE ASSOCIATION	PLACE
June 9-10	Oregon	Medford
June 9-11	New York	Quebec
June 10-12	Michigan	Grand Rapids
June 11-13	South Dakota	Aberdeen
June 12-13	Idaho	Moscow
June 16-18	Iowa	Davenport
June 17-19	Minnesota	St. Paul
June 17-19	South Carolina	Myrtle Beach
June 19-20	West Virginia	Charleston
June 19-21	Washington	Bellingham
June 20-21	Utah	Salt Lake City
June 21	Maine	South Poland
June 23-25	Illinois	Peoria
June 26-28	Virginia	Hot Springs
June 27-28	Colorado	Glenwood Springs
June 27-28	Connecticut	New London
June 27-28	Massachusetts	New London, Conn.
July 8-9	North Dakota	Bismarck
July 17-19	Montana	Great Falls
Aug. 29-30	Wyoming	Casper
Sept.	Kentucky	Louisville
Sept. 10-11	Indiana	Fort Wayne
Nov. 7-8	Arizona	Tucson

AMERICAN BANKERS ASSOCIATION MEETINGS

June 16-20	American Institute of Banking	Denver, Colo.
Sept. 29-Oct. 2	Convention	Cleveland, Ohio

REGIONAL CONFERENCES

Aug. 6-7-8	Pacific and Rocky Mt. States Trust	Seattle, Wash.
Fall 1930	Sixth Mid-Continent Trust	Indianapolis, Ind.
Spring 1931	Fourth Southern Trust	Charleston, S. C.

OTHER ASSOCIATIONS

Sept. 17-20	Financial Advertisers Ass'n Convention	Louisville, Ky.

Reserve Bank Notes

(*Continued from page* 1162)

and require a heavier gold reserve. Furthermore, when their liabilities take the form of notes outstanding they no longer can be regarded as member bank reserves. Hence, the total lending power of the banking system is forcibly shrunk at an appalling rate as notes are issued.

The only alternative excuse for the maintenance of specific security requirements is the supposition that they make for greater safety of the notes by keeping open the channels to redemption. In testing the validity of this claim, it should not be overlooked that in any case the notes are a preferred lien on all the assets of the issuing bank. Any specific security that is required can be no more than part of this whole. Where

the contingency of overissue is not involved, it is clearly an act of supererogation to specify a part of a bank's assets as an addition to the whole, unless failure to do so would alter the composition of the whole.

Effect on Portfolio

THE proviso is of course an important one. It at once suggests the question whether the removal of the present specific currency requirements of Federal reserve notes would permit or encourage an undesirable change in the character of Federal reserve bank portfolios.

To the member banks, Federal reserve note security requirements are at present a matter of indifference in so far as they affect the nature of the individual transactions between the reserve banks and members. The latter, in order to procure currency, have only to build up an offsetting credit with the reserve banks, a thing which can be done in any one of a number of ways: by gold deposits, by borrowing "Federal funds," by drafts on city correspondents, by rediscount operations, by direct borrowing on collateral of eligible paper or of government bonds.

Within the limits of these possibilities the member makes its choice according to its own advantage without conscious regard for the specific portfolio requirements of the central banks. In practice no distinction is made between the building up of credits for reserve purposes and credits for the procurement of Federal reserve notes. Hence a removal of the specific security stipulations for the notes would of itself in no way influence the character of member bank transactions with the central banks.

In providing the necessary cover for reserve notes, the Federal reserve banks can do nothing more than to utilize whatever eligible items they happen to have. In theory, whatever deficiencies their portfolios may at any time display in this respect as a result of the autonomous behavior of member banks, may be offset by open market transactions. But in practice, the nature of these transactions is such that their use in providing Federal reserve note cover must necessarily be a matter of incidental importance. They are governed by the far more vital considerations attendant upon the regulation of credit conditions generally.

Open Market Limitations

IN the administration of the Federal reserve banks it has become axiomatic to regard the open market as a vehicle of Federal reserve "credit policy." A coordination plan of open market activities to the nation's currency requirements is manifestly out of the question as a matter of policy, and its occurrence at any time can only be temporary and accidental.

At times the primary motive in the open market is to check the inflow of gold, at other times the outflow; at times to create the appearance of easy money in the interest of business recovery as at present, at other times to tighten the money market for the purpose of discouraging speculation. Government refunding operations and the crop moving seasons, too, play their part in influencing open market operations. Very rarely, if ever, would open market policy be affected by the desire to enlarge or to contract "eligible paper" holdings to meet the specific security requirements of Federal reserve notes.

The domestic currency demand has no necessary relationship to the forces producing fluctuations in the paper which serves as the currency basis.

Gold Certificates Again

FROM our present arrangement, no practical difficulties have resulted as yet, thanks to our superabundant gold supply. At present, gold held exclusively against Federal reserve notes happens to provide a 100 per cent gold basis for them. Since 1923 gold certificates (a form of currency regarded as obso-

lete twenty years ago) have been reintroduced to our currency system and made into the elastic element of our currency supply, thus doubly demonstrating the futility in practice of the specific collateral security basis for our currency. Since a 100 per cent gold cover has for some years been available for either type of currency, the so-called eligible paper basis of Federal reserve notes has had no importance, and hence has had no influence either on member bank or on Federal reserve bank portfolios.

That such has been the case is not a matter either of surprise or regret. But should the future witness so great a diminution of our gold supply as to necessitate a return to a paper basis for our currency, it is not only conceivable but highly probable that in their credit operations the Federal reserve banks would be forced to subordinate credit policies of major importance to the narrow business of procuring a specific form of collateral for Federal reserve banks.

New Kinds of Paper

DURING the past few years great changes have occurred in the relative proportions of the various types of banking paper. Changes in methods of corporate financing, and in methods of commodity distribution have been basic in character and will no doubt continue, together with others that we cannot yet visualize. These economic changes must of necessity be reflected in corresponding changes in the character of bank paper. Any specific basis prescribed for bank currency is therefore likely to be quickly outgrown and become fictitious for the purpose in view as well as an active deterrent to progressive banking operations.

Since specific security requirements for our present form of currency are in no sense a device for achieving a scientific regulation of note issue, cannot contribute either to its safety or certainty of redemption, and cannot serve as a constructive influence in the building up of bank portfolios; but are on the other hand futile in practice for the purpose in hand, with the promise of becoming an actual deterrent to sound banking in the future, the logical alternative is a currency issued against general banking assets.

Individual Accounts

(Continued from page 1165)

and categorically omits all debits in settlement of clearinghouse balances, debits to correspondent bank accounts, cashier's checks, and intra-mural service debits such as charges to expense accounts, accountants' corrections, and similar items, and reporting only actual out-payments for the account of depositors.

The index required by analysts, editorial writers, economists and students everywhere should include only the actual out-payments by banks for the accounts of customers having funds on deposit for the purpose. These would largely include funds subject to check, deposits on savings, or certificates of deposit or like deposits by customers. It must omit transactions strictly between banks because these are cumulative and represent for the most part duplicate or service transactions already completed in true debits to individual ledger.

EMPLOYING this index along with the Federal reserve figures for gold, rediscounts, and open market operations and the call money and rediscount rates, students can proceed with rich and sound basic data.

At the recent meeting of the Executive Council of the American Bankers Association held in May, 1930, at Old Point Comfort, the Commission on Bank Management (formerly the Clearinghouse Section) thoroughly discussed the subject of banking indices, and while it was clearly recognized that "clearings" as an index still has some value and particularly in the largest cities, it was recommended that as rapidly as possible all those interested should employ the new index of "debits to individual accounts" to the end that as soon as it can be conveniently done this new index should come into universal use to the exclusion of all others. To that end the commission invited the co-operation of all authorities, students and the press.

Era Favors Investment Affiliates

(Continued from page 1154)

the establishment of investment affiliates in view of the resulting opportunity for greater profits. Of the fact that the operation of such affiliated companies on the whole has been profitable, there is little doubt. Although complete earnings figures are not available, the establishment of affiliates has apparently justified this quite satisfactorily from the standpoint of profits and greater freedom of action.

To what extent does public supervision protect the bank's depositors against the possibilities inherent in these added risks? Of course, the funds of the bank and the investment affiliate are not mingled. Nevertheless, serious losses in the investment company might actually imperil the bank's solvency. Bank examiners, however, have no authority to examine the securities company. Some bank officers and directors have voluntarily asked that the assets of the company and the bank be examined simultaneously. These executives have demanded that the same standard be applied to the investment company as to the bank and bank supervisors have willingly arranged to make the examination. This appears to be a wholesome practice and might well be extended. Bankers are not organizing securities affiliates to deal in speculative securities. The risk appears to be more potential than real.

Prospects Favor Growth

WITH regard to the future outlook for the separate securities company, the consensus of opinion seems clearly to indicate that this form of organization is desirable both from the standpoint of the affiliated bank and the investment business as a whole. Let us remember, however, that investment conditions during the past few years have been unusual and that the continued popularity of common stocks is by no means a foregone conclusion. Indeed with the days of October 23 and November 13 still fresh in mind, it is to be questioned whether common stocks will continue to be so readily accepted by the investing public. As one account of the recent debacle so aptly described it "bond houses began to dust off their desks and set things in order to be prepared for the inevitable rush of business." It has been computed that total new financing in the United States during the first quarter of 1930 aggregated $1,613,697,000, and that bond and note issues composed $1,482,550,000, or about 92 per cent, while stock issues accounted for the remaining 8 per cent.

A decline in the relative importance of common stocks for investment purposes would remove a major advantage of the investment affiliate type of organization. Nevertheless, there are other advantages which accompany the establishment of affiliates. Even in the face of the changed situation of recent months, new securities companies have been announced, one by a large New York trust company. It is not unlikely, however, that changed conditions may deter some banks from launching investment affiliates.

The primary purpose of these companies is to underwrite and distribute high grade bonds and stocks; they usually have broad powers which are exploited in varying degrees by individual companies. Some deal in acceptances. One manager stated that his company had loaned, on the security of the bank's own stock, an entirely legitimate operation, though not legal for the bank itself. Some have served as holding companies to control banks in other districts. Real estate mortgage loans having more than five years' maturity may be owned by an investment company, but not by a national bank, a further advantage of the affiliate over the bond department. The

company may invest in attractive stock or bond issues on its own account with the intention of holding them for profit. Several officers of companies stated that they have made use of this opportunity. In some instances these securities are carried in part by loans from the parent bank. Questions as to whether the company carried excess loans for the bank or dealt in installment or finance paper were answered unanimously in the negative; this could be done, but is not. The same is true of numerous other potential activities.

Land Bank Bonds

(*Continued from page* 1161)

(1) Quick assets.
(2) Good or desirable assets.
(3) Undesirable assets.
(4) Slow assets.

Quick assets would be the cash on hand and in banks and the unpledged Government bonds. These assets should at all times be equal to the accrued interest on the outstanding bonds and total of the demand obligations payable.

The good or desirable assets would be the mortgage loans and accrued interest as originally made in accordance with the provision of the Farm Loan Act and which has been approved by the Farm Loan Board and on which there are no delinquent amortization installments.

The undesirable assets would consist of mortgage loans and accrued interest thereon made in the regular way which have been approved by the Farm Loan Board but the borrower is unable or has failed to meet his amortization installments, pay his taxes or fire insurance premiums. It is this class of assets that develops the foreclosures and finally goes into slow assets.

In most every instance the remaining assets of the bank would be considered slow. They usually consist of real estate owned, sheriff's certificates, real estate subject to optional sales contract, second mortgages, accounts receivable for taxes and insurance premiums. These items have been accepted by the bank to prevent a loss.

What Determines Solvency?

IN considering the financial statement of land banks, the item of "less payment on principal" which has been deducted from the gross mortgage loans, under the law is a trust fund and may be used and invested by the bank in a certain way provided by the law.

The net mortgage loans are the largest and principal asset of the land bank. The character of these loans determine the solvency of the bank. If these loans are good and desirable, the amortization installments being paid promptly and there are no delinquent taxes or fire insurance premiums, they can be considered well secured and the bank in a strong position.

A large amount of "net mortgage loans" upon which there are past due amortization installments is undesirable for it is these loans that produce the foreclosure which in many instances mean a loss to the bank and the purchase of the farm.

The item "less principal of delinquent installment" is the amount of principal included in the delinquent amortization installment which has not yet been credited on the note. This does not mean that this is the total amount of the mortgage loan upon which the interest is past due and unpaid or what we would call undesirable assets. The approximate amount in dollars may be ascertained by dividing the number of dollars in delinquent amortization payments by thirty-five for the Federal land bank and thirty-seven and one-half if it is a Joint Stock land bank. Multiply the amount then obtained by 1000 and you will then have approximately the amount of dollars of delinquent loans if no amortization payment is more than six months past due. For example, delinquent amortization installments amounting to $55,000 in any Joint Stock land bank would indicate that the bank had net mortgage loans upon which the interest is past due and unpaid amounting to approximately $1,460,000. A Federal land bank having delinquent amortization installments amounting to $240,000 would indicate that the interest was past due on approximately $6,850,000 of their mortgage loans.

Variety of Slow Assets

ASSETS that might be considered slow are as follows:

"Accounts Receivable" — These are generally items the bank has been called upon to pay for the borrower in order to prevent depreciation of the bank's security.

"Notes Receivable"—These are notes which the bank has accepted in payment of real estate or other items and have not been approved by the Farm Loan Board as security for bond issues.

"Real Estate, Sheriff's Certificates and Judgments"—This is real estate that the bank has been forced to purchase at foreclosures sales and has not yet been able to dispose of.

"Delinquent Amortization Installments"—These are the past due payments on the loans including interest which the bank has been unable to collect from the borrower.

These slow assets are of doubtful value. Many of the banks have adopted a plan of setting up a reserve against a portion of and in some instances the total amount of such assets. Where the banks have set up such reserve against these assets further loss to a large extent has been eliminated. This indicates

the stronger position of banks which can do this.

Two Chief Liabilities

THE principal liability of a land bank is "Farm Loan Bonds Unmatured" and "Interest Accrued on Farm Loan Bonds." These two items are secured by the mortgage loans held by the registrar as collateral security for such bond issue. Where the bank has not sufficient approved mortgage loans to secure the bonds issued they are required to deposit Government bonds for such deficiency.

The legal reserve, surplus and undivided profits of the bank should be scrutinized closely. This, together with the capital stock, is the safety fund built up by the bank to take care of any losses that might occur.

Many statistics and much information could be given in connection with the financial statement that would enable the investors more accurately to judge the financial condition of the bank and the value of the bonds purchased. Important among such statistics and information would be that the trust fund created by "payment on principal" is being properly handled and invested; the total amount of loans upon which all payments have been promptly met; the total amount of loans upon which there are delinquent payments; delinquent taxes and past due fire insurance premiums; what amount, if any, of such delinquent loans are pledged as security for the bonds issued; the total amount of loans on which there are pending foreclosures and the amount, if any, of such loans that are pledged as security for bond issue; whether any of the amortization installments are past due more than six months.

The long overdue amortization installments cause foreclosure which generally means real estate is acquired by the bank, thereby increasing the slow assets of the bank. Much consideration should be given to the reserve set up to take care of the real estate owned or other slow assets. This would indicate the strength of the bank and its ability to absorb its losses without impairing its legal reserve, surplus or capital. If apparent losses have already been charged to undivided profit mention of this should be made in the financial statement.

Every investor, if he is unable to analyze the statement of the land bank, should go to some one who has sufficient knowledge to analyze such statement and get thoroughly accurate information concerning the bank before he purchases land bank bonds for investment or sacrifices those he owns at prices below their real value.

Is every one in your bank making the use which he should be making of the ideas in the Journal? If not, write for our interesting and economical Group Plan.

Unfair Competition

(*Continued from page* 1109)

the remainder remaining in the bank account as a reserve. If the savings rate is 4 per cent, this compromise increases the depositors income on the full amount to an average of 5 per cent. By this arrangement all of the wants of the depositor are satisfied. It is no longer necessary for him to look elsewhere for investments, and his account is kept open for such additional deposits as he may make from time to time.

Information which I believe to be reliable is that the Pacific Coast plan is not only meeting with great success wherever used, but that as a result of these personal interviews, customers interviewed have expressed themselves as appreciative of the banks interest on their behalf. In fact, these interviews have opened up the way for a friendly discussion of trust services, and in a number of cases have led to obtaining business for trust company departments.

This solution of a problem that for years has tried the patience of bankers is above criticism of any building and loan association that is conducting its business along proper lines. I will be very much surprised if after the new plan of meeting unfair building and loan competition is used for a time our leading building and loan associations do not endorse it, for it will solve a problem within their own ranks.

The plan should correct evils in the building and loan business which in years to come would if permitted to continue cast a shadow over the good reputation of hundreds of building and loan associations. There is not a banker so far as I know who does not feel that there is a place in our financial fabric for both savings banks and building and loan associations and that each has an important work to do. But let each keep his proper place and not raid the business of the other.

As I have studied over the information before me I have been impressed with the fact that all that the new Pacific Coast plan of meeting building and loan association competition proposes to do is to defend savings already on deposit in our banks from the unwarranted attacks of building and loan associations which fail to observe the rules of fair play. All other associations have nothing to fear.

Condition of Business

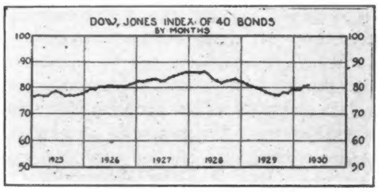
(*Continued from page* 1170)

it has absorbed an unusually heavy volume of new offerings and at the same time made further gains in the average price level of outstanding issues. On the accompanying chart is shown the Dow-Jones index of forty representative bonds, comprising ten each of high-

grade rails, second-grade rails, industrials and public utilities. The high point in the last several years was reached in 1928, and the pronounced downward movement in 1929 corresponds roughly with the expansion of the stock market boom and the resultant unattractiveness of bonds for investment by banks. Constantly increasing demands for secured loans forced the banks to dispose of their bond holdings so as to make this credit available to borrowers, and steadily advancing money rate made the value of fixed-interest obligations move downward automatically.

Chart of Forty Bonds

ALTHOUGH the level of bond prices turned upward in November it is interesting to note that purchases by banking institutions did not begin in any



large way until March of this year, except temporarily over the year-end. The low point in 1930 was reached in the week ended February 19, when the reporting member banks of the Federal Reserve System held a total of $2,763,000,000 in investments. This is exclusive of United States Government securities, which serve somewhat different purposes although they tend to move in the same general direction. The latest available statement, that of May 21, shows investment holdings at the high for the year—$3,013,000,000, and represents an increase in three months of exactly $250,000,000. The reason that commercial banks did not earlier go into the bond market in a large way was, of course, the credit strain incident to the stock market crash, the loss of deposits to meet margin requirements and the interruption of the flow of savings into the banks.

During the month the United States Treasury sold an issue of $104,600,000 of ninety-day non-interest bearing Treasury bills on a discount basis of 2.54 per cent. This is the fourth offering of this type of Government obligation since it was introduced last December. The original offering of $100,000,000 was sold on a 3¼ per cent basis, the second, of $56,108,000 in February, on a 3.30 basis and the third, of $51,316,000 in April, on a 2.93 per cent basis. It is thus apparent that the Treasury is receiving the benefits of cheaper money market conditions and that the new method of financing by means of Treasury bills is meeting with popular favor.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

Being a more or less personal talk between the **EDITOR** *and the* **READER**

The Promise to Pay

MANY letters have been received by the JOURNAL asking for framing copies of the May cover illustration, "The Promise to Pay," or for permission to reproduce the editorial of the same title.

We regret that we are unable to furnish framing copies either large or small of the cover illustration. But bankers who wish to have the editorial reprinted in their local papers may do so without further ceremony than asking the publisher to give the customary credit as to the source of the article.

And for a July Cover

AND for the July cover illustration there will be one of the marine paintings in which Mr. de Maris excels. As is always the case, it will not however be just a picture, but a picture with a story back of it.

Worth $5,000 a Year

HERE is a letter from William Edward Johnson, of Evanston, Ill., that has a worth while story in it:

"It is a pleasure indeed to renew at this time my subscription to the finest magazine in the banking field.

"In these days of rapidly changing ideas, when the entire banking organization is in the midst of a sort of metamorphosis to meet the newer conditions imposed on it by the rapid growth and changing structure of industry, the young banker or bank man must read the more authoritative publications in order to keep abreast of the times. In my opinion, the JOURNAL more than satisfies that need, and should be in the hands of every young member of the banking profession.

"Do you remember the story of the lad who came home very excitedly one day to inform his mother that he had a job? 'And how much will you get?' asked the mother.

" 'Five thousand dollars a year!'

" 'Now, Willie, tell mother the truth, how much will you get?'

" 'Five thousand dollars a year, mother,—$4.00 a week in cash and the rest in good advice.' "

"Here is my $3.00, I shall look forward to more than $5,000 worth of good advice, counsel, and accurate and timely information in the pages of the JOURNAL during the ensuing year."

That Innocent Looking Post Card

MANY bankers have been complaining about the results that followed the signing of a card received through the mails from a reporting company in New York.

The company offered to supply the bank copies of the reports of the hearings on Group and Branch Banking at "25 cents per page." Many signed the post card—in effect a contract—and returned it, on the supposition that they were getting a copy of the hearings for 25 cents.

Later it developed that they had signed a contract to pay 25 cents per page of typewritten matter, and that there was seemingly no end to the number of pages. The bills often ran up into hundreds of dollars.

Many complaints concerning this bit of sharp practice have been received by the American Bankers Association, and warnings against it have been published in the JOURNAL. The last warning, given on Page 1 of the Protective Section for May, told also that the printed and official reports of these hearings might be obtained at nominal cost from the Government Printing Office at Washington.

It Happened in New York

THE following excerpts are from the letter of a business man in Kentucky:—

"For the past twenty years I have visited the New York market, buying for the different departments of my store, and just now returned from a few days' trip to your city.

"I was disgusted with the talk and attitude of the different business men with whom I came in contact on this trip.

"How on earth can the business men of New York expect a man to buy their merchandise when they do everything possible to discourage him? When I left home I was feeling good, my business was looking up, my collections were better, and I was showing an increase in sales. I made out my want list as usual with the idea of filling in on everything for each department I felt that I could sell, but I hadn't been in New York twenty-four hours before I determined to come home and see if everything hadn't gone to the dogs during my absence."

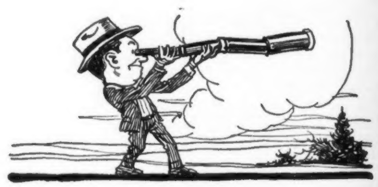
What happened to this buyer in New York may happen to other buyers in other centres, to the detriment of the country as a whole. Without knowing anything of the merits of the conversations that apparently have discouraged our correspondent, it is evident some of those with whom he talked must have failed to distinguish between caution and pessimism.

Someone is overdoing this "caution business." Business is built on confidence, and the man who possesses confidence ought not to be thoughtlessly robbed of an excellent quality.

Making Economics Serve Politics

THE Everglades, Florida, News interestingly explains why it is that representatives in Congress from great consuming centers in the North could easily vote for higher duties on an item of food:—

"The tariff bill that puts a rate on tomatoes so high that tomatoes from Mexico and Bahama islands are excluded is all right, of course, but it isn't going to make tomatoes cost the consumer in the North any more than they cost now. The only reason northern representatives from consuming centers voted for the tomato schedule was this: They were told that if Mexican tomatoes were excluded, so many more Americans would raise more tomatoes in the United States that the total production of tomatoes would be as large as before, and the maintaining of the same volume of production will keep the price where it is now. We in Florida who keep in touch with affairs know there are tens of thousands of acres of land in this state that will be planted with tomatoes the first season after the tariff bill goes into effect;



Florida tomato growers will be competing against one another instead of competing against Mexican tomatoes, but the competition will be just as intense."

And by the same token there is reason to fear that do what he will to curb the production of wheat the satisfactory price produced by government aid will immediately stimulate farmers to produce more wheat and thus in the end to operate against the success of the plan to relieve them.

A Banker In Trouble

A BANKER having trouble with his business has been likened to a mouse in a trap, which says:

"I don't care for the cheese any more; what I want is to get out of here."

Name a Low Rate

"THE consensus of opinion seems to favor the more liberal methods of calculation interest," says Frank O. Carr, cashier, First National Bank, Wichita, Kan.; "and it is thought to be a much better plan to name a lower rate and be open and above-board in methods of figuring than perhaps to advertise a high rate and be so rigid in our requirements for withdrawals as to virtually reduce the rate paid."